

Alleghany Corporation(Y)

\$807.75 (As of 01/16/20)

Price Target (6-12 Months): **\$848.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Shares of Alleghany have outperformed the industry in the past year. Strong performance across insurance and reinsurance operations and better pricing will continue to boost the premium revenues of the company. Alleghany strives to grow via both acquisitions and organic means as they diversify and strengthen its portfolio. A solid balance sheet with higher liquidity and lower debt are its growth initiatives. Continued strong underwriting performances by TransRe, RSUI, CapSpecialty and PacificComp should drive results in the near term. Robust capital position enable the company to deploy capital effectively. However, exposure to catastrophe losses induces volatility in underwriting results. Also, elevated expenses due to higher losses and other costs weigh on margin expansion and lower return on equity affects profitability measure of the company.

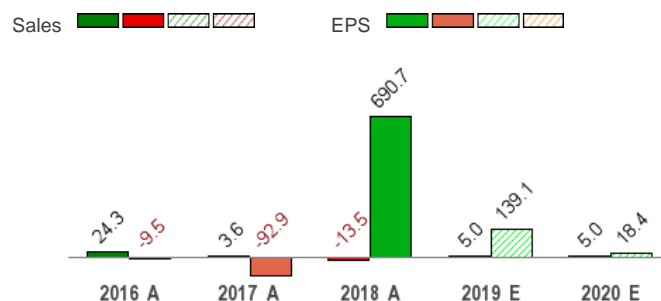
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$814.83 - \$600.23
20 Day Average Volume (sh)	55,170
Market Cap	\$11.6 B
YTD Price Change	1.0%
Beta	0.59
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 31% (79 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.2%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	02/19/2020
Earnings ESP	-6.9%
P/E TTM	31.9
P/E F1	17.7
PEG F1	NA
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					6,038 E
2019	1,934 A	2,103 A	1,534 A		5,750 E
2018	1,584 A	1,706 A	1,353 A	1,429 A	5,477 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$11.62 E	\$11.72 E	\$8.00 E	\$14.33 E	\$45.65 E
2019	\$9.66 A	\$12.40 A	\$7.61 A	\$8.86 E	\$38.56 E
2018	\$11.24 A	\$9.78 A	-\$1.07 A	-\$4.35 A	\$16.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

Overview

Established in 1929 and headquartered in New York, Alleghany Corporation and its subsidiaries engage in property and casualty (P&C) reinsurance and insurance businesses in the United States and internationally. The company was incorporated in Delaware in 1984.

Although the primary sources of revenues and earnings are reinsurance and insurance operations and investments, the company also generates revenues and earnings from a diverse portfolio of middle-market businesses that are owned and managed through its wholly-owned subsidiary Alleghany Capital.

Alleghany reports through three segments – **Reinsurance, Insurance and Alleghany Capital**.

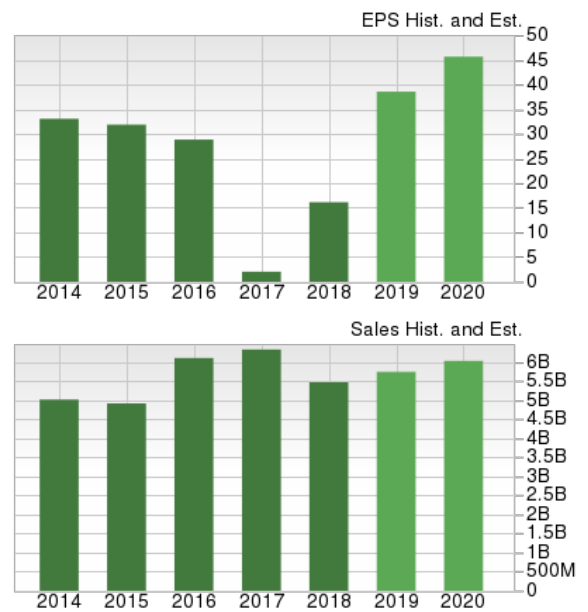
The Reinsurance segment (79% of 2018 net premiums written) consists of P&C reinsurance operations conducted by TransRe's reinsurance operating subsidiaries and is further reported through two major product lines – property and casualty & other. TransRe has been a subsidiary since March 2012.

The Insurance segment (21%) consists of P&C insurance operations conducted in the United States by AIHL through its insurance operating subsidiaries, RSUI and CapSpecialty. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment. RSUI has been a subsidiary of AIHL since July 2003. CapSpecialty has been a subsidiary of AIHL since January 2002.

AIHL Re, a captive reinsurance company, which provides reinsurance to Alleghany's current and former insurance operating subsidiaries and affiliates, has been a wholly-owned subsidiary of Alleghany since its formation in May 2006. RSUI is headquartered in Atlanta, GA; CapSpecialty, is headquartered in Middleton, WI. AIHL Re, the Vermont-domiciled captive reinsurance company, provides reinsurance to current and former insurance operating subsidiaries and affiliates.

The insurance segment constitutes a smaller portion of the company's consolidated net premiums written and is reported through RSUI and CapSpecialty subsidiaries.

Prior to Dec 31, 2017, AIHL's insurance operations also included PacificComp.



Reasons To Buy:

▲ Alleghany's top line has been improving over the past few years, driven by increasing gross premium written. This momentum continued in the first nine months of 2019 with revenues rising 19.1% and gross premiums written increasing 11.8%. Moreover, we expect continued strong underwriting performances by TransRe and RSUI, CapSpecialty and PacificComp should continue to drive the results.

▲ Solid performances at TransRe and RSUI, CapSpecialty and PacificComp, helps them pay dividend to the parent company that is used to make acquisitions at Alleghany Capital, reduce debt, or repurchase shares.

▲ Alleghany considers strategic buyouts a prudent approach to ramp up its growth profile. Past buyouts of RSUI, CapSpecialty and PacificComp – responsible for insurance operations – were a testimony to the company's long-term growth strategy. In May 2018, Alleghany Capital, a subsidiary of Alleghany, announced buyouts of Russ Berrie and Applause brands from Larsen & Bowman Holdings Ltd. and Maple Licensing Ltd. through Jazwares' affiliate – Zag Toys, a division of Zacks Enterprises, Inc. The buyout will enable Alleghany to widen its product base by entering into the consumer products industry. Hence, the company through its subsidiaries pursues acquisitions that not only expands its geographical presence but also add capabilities to its portfolio.

▲ For a considerable period of time, the company's investment results were affected by a persistently low interest environment. However, the company saw a turnaround in 2017, which continued in 2018 and through the nine months of 2019. Net investment income improved 9.5% in the first nine months of 2019 on the back of higher other investment results, pillar investments and interest income. This, in turn, will possibly aid top-line improvement at a steady pace.

▲ Alleghany boasts a solid balance sheet with high liquidity and low debt. With modest leverage (debt to equity was 19.2%, comparing favorably with the industry average of 25.5%) and a decent capitalized base, Alleghany is well-positioned to support its subsidiaries in taking advantage of growth opportunities.

The company has doubled its book value per share since the financial crisis of 2008. It has witnessed a 10-year CAGR (2010-2018) of 7.2% and is in line with the 7-10% long-term annual growth target. Therefore, given the past trend, we expect the metric to continue to show progress in the near term. Book value per share was \$612.87 as of Sep 30, 2019, up 16.1% from the level as of Dec 31, 2018.

Owing to its sound financial structure and operational performance, the company and its subsidiaries enjoy strong investment grade ratings from credit rating agencies.

▲ Banking on its strong capital position, Alleghany is engaged in share buybacks, which in turn, enhances shareholder value. Though the company does not resort to paying dividends, the board of directors paid special payout of \$10 per share in March 2019.

▲ Shares of the company have gained 30.4% in the past year, outperforming its industry's growth of 11.9%. Solid fundamentals are likely to help it continue the rally going forward.

Strong underwriting performances by TransRe and RSUI, CapSpecialty, and PacificComp driving top line, strategic buyouts and solid balance sheet aiding effective capital deployment are positives.

Reasons To Sell:

- ▼ As a property and casualty insurer, Alleghany is exposed to catastrophe loss, causing volatility in underwriting results. However, catastrophe loss in the first nine months of 2019 declined 54.9% from the year-ago period. Given the unpredictability of cat occurrences, the underwriting results are always exposed to volatility.
- ▼ Alleghany has been experiencing an increase in expenses due to higher losses and loss adjustment expenses, operating expense and commissions, brokerage and other underwriting expenses. In the last five years the company has witnessed an increase of 10.9% in expenses, weighing on margin expansion. In the same time frame, the company saw a contraction of 1700 basis points. The first nine months of 2019 witnessed 20% year-over-year increase in expenses due to increase in net loss and loss adjustment expenses, commissions, brokerage and other underwriting expenses, other operating expenses, corporate administration, amortization of intangible assets, interest expense. An increase in expenses weighs on the company's margins.
- ▼ Alleghany's return on equity is 4.4%, lower than the industry average of 7%. The company's lower profitability reflects in relative inefficiency in utilizing shareholder's funds.

Exposure to catastrophe losses causing volatility in underwriting results and increase in expenses weighing on margin expansion can induce volatility in earnings results.

Last Earnings Report

Alleghany's Q3 Earnings Top Estimates, Revenues Fall Y/Y

Alleghany's third-quarter 2019 operating earnings of \$7.61 per share beat the Zacks Consensus Estimate by 25.2% on the back of higher revenues. In the year-ago quarter, the company had incurred a loss of \$1.07 per share.

Operational Update

Revenues in the quarter declined 0.8% year over year to \$2.2 billion.

Net premiums written rose 14.1% year over year to \$1.4 billion, attributable to growth in gross premiums written in the recent quarters.

Net investment income came in at \$148 million in the quarter, up 16.1% year over year. The upside was driven by higher interest income, partially offset by lower dividend income.

Total costs and expenses escalated 11.1% to \$2 billion.

Segment Update

Reinsurance Segment: Net premiums written increased 12.8% to \$1.1 billion owing to TransRe's purchase of the renewal rights to a block of U.S. treaty reinsurance business, partially offset by a decrease in net premiums written related to a certain large whole account quota share treaty and the impact of changes in foreign currency exchange rates.

The segment's underwriting profit was \$6 million against underwriting loss of \$172.4 million reported in the year-ago quarter. Also, its third-quarter combined ratio contracted 1840 basis points (bps) to 99.5%, primarily due to significantly lower net catastrophe losses.

Insurance Segment: Net premiums written rose 19% year over year to \$302.2 million driven by robust contribution from CapSpecialty and RSUI.

Underwriting profit of \$26.8 million declined 17.3% year over year. The combined ratio of this reported segment increased 320 bps to 90.9% due to lower favorable prior accident year loss reserve development, partially offset by lower catastrophe losses.

Financial Update

Alleghany exited the third quarter with \$897.5 million cash, down 13.6% from the figure at 2018 end.

Senior notes and other debt increased 1.6% from the level at 2018 end to \$1.7 billion.

Alleghany's shareholder equity at the end of the third quarter increased 14.8% from the level as of Dec 31, 2018 to \$8.8 billion.

Book value per share was \$612.87 as of Sep 30, 2019, up 16.1% from the level as of Dec 31, 2018.

Share Repurchase Update

As of Sep 30, 2019, the company had \$659 million remaining under its share repurchase authorization.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	NA
EPS Surprise	25.16%
Quarterly EPS	7.61
Annual EPS (TTM)	25.32

Valuation

Alleghany Corporation shares are up 30.4% over the trailing 12-month period, respectively. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 11.9% and 10.5%, respectively.

The S&P 500 index is up 22.3% in the past year.

The stock is currently trading at 1.32X trailing 12-month tangible book value, which compares to 1.43X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.33X and as low as 0.93X, with a 5-year median of 1.08X. Our Neutral recommendation indicates that the stock will perform in-line than the market. Our \$848 price target reflects 1.38X tangible book value.

The table below shows summary valuation data for Y

Valuation Multiples - Y					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.32	1.43	2.83	4.5
	5-Year High	1.33	1.67	2.89	4.5
	5-Year Low	0.93	1.26	1.83	2.85
	5-Year Median	1.08	1.47	2.5	3.61
P/S F12M	Current	2.14	1.67	6.53	3.53
	5-Year High	2.14	11.26	6.61	3.53
	5-Year Low	1.24	1.55	5.2	2.54
	5-Year Median	1.6	1.92	6.04	3

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 254)



Top Peers

Fidelity National Financial, Inc. (FNF)	Outperform
Markel Corporation (MKL)	Outperform
W.R. Berkley Corporation (WRB)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
Cincinnati Financial Corporation (CINF)	Neutral
First American Financial Corporation (FAF)	Neutral
Everest Re Group, Ltd. (RE)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	Y Neutral	X Industry	S&P 500	AFG Neutral	MKL Outperform	RE Neutral
VGM Score	C	-	-	A	F	B
Market Cap	11.63 B	1.97 B	24.61 B	9.98 B	16.33 B	11.31 B
# of Analysts	2	2	13	3	1	3
Dividend Yield	0.00%	0.99%	1.74%	1.63%	0.00%	2.23%
Value Score	D	-	-	A	D	C
Cash/Price	0.16	0.18	0.04	0.28	0.30	0.10
EV/EBITDA	44.46	9.44	14.24	9.44	27.01	-64.82
PEG Ratio	NA	1.70	2.07	2.27	NA	1.15
Price/Book (P/B)	1.32	1.26	3.38	1.58	1.54	1.26
Price/Cash Flow (P/CF)	32.36	13.82	13.75	10.17	23.03	51.26
P/E (F1)	17.69	13.78	19.09	12.37	30.03	11.55
Price/Sales (P/S)	1.46	1.05	2.68	1.28	2.04	1.45
Earnings Yield	5.65%	7.21%	5.24%	8.09%	3.33%	8.66%
Debt/Equity	0.19	0.21	0.72	0.23	0.37	0.07
Cash Flow (\$/share)	24.96	3.05	6.94	10.88	51.34	5.41
Growth Score	B	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	-22.88%	-0.55%	10.56%	13.41%	-0.95%	-26.70%
Proj. EPS Growth (F1/F0)	18.40%	6.72%	7.57%	4.07%	-2.17%	5.72%
Curr. Cash Flow Growth	122.47%	9.94%	14.73%	39.71%	174.99%	-47.78%
Hist. Cash Flow Growth (3-5 yrs)	-13.07%	7.23%	9.00%	13.00%	10.64%	-27.90%
Current Ratio	0.32	0.44	1.24	0.16	0.60	0.35
Debt/Capital	17.53%	17.79%	42.99%	18.38%	27.64%	6.59%
Net Margin	1.43%	5.34%	11.14%	8.43%	6.75%	5.30%
Return on Equity	4.36%	6.81%	17.16%	12.83%	5.18%	5.90%
Sales/Assets	0.31	0.31	0.55	0.12	0.23	0.30
Proj. Sales Growth (F1/F0)	%	4.75%	4.16%	NA	8.95%	9.80%
Momentum Score	D	-	-	B	D	A
Daily Price Chg	0.86%	0.76%	0.89%	0.76%	1.04%	0.69%
1 Week Price Chg	-2.07%	-0.83%	0.39%	-0.88%	0.07%	-0.87%
4 Week Price Chg	0.78%	1.02%	2.65%	-0.01%	3.58%	0.68%
12 Week Price Chg	5.48%	1.87%	7.55%	8.14%	6.03%	11.12%
52 Week Price Chg	30.86%	10.68%	22.12%	15.98%	11.95%	28.84%
20 Day Average Volume	55,170	115,834	1,536,375	259,493	31,791	184,314
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	0.00%	0.03%	0.07%
(F1) EPS Est 4 week change	-0.16%	0.00%	0.00%	0.00%	0.03%	-0.21%
(F1) EPS Est 12 week change	-1.62%	-0.42%	-0.40%	-1.47%	2.94%	0.87%
(Q1) EPS Est Mthly Chg	5.44%	0.00%	0.00%	0.00%	-7.62%	0.05%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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