

## Equity Research

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## Financials

### Radian Group, Inc.

#### Flash Note: Solid 2Q18 Earnings Beat, Strong NIW Growth Should Help to Buoy RDN Shares

Radian Group (RDN) this morning released a 2Q18 report that featured a solid earnings beat as well as record new insurance written (NIW). Shares of RDN have rallied off the lows at which they traded in early May amidst concerns about new GSE alternatives to private mortgage insurance (PMI) and pricing pressure within the space, we believe the strong print should help to continue that momentum.

► RDN reported 2Q18 adjusted diluted earnings per share of \$0.69, outpacing the consensus estimate of \$0.59 and our estimate of \$0.61. The beat was paced by both a better-than-expected mortgage insurance provision for losses (\$19.4mm versus the consensus estimate of \$44.2mm and our estimate of \$39.3mm) and net premiums earned (\$249.0mm versus the consensus estimate of \$246.3mm and our estimate of \$245.5mm). RDN's adjusted net operating ROE during the quarter was an impressive 19%.

► RDN during 2Q18 posted \$16.4mm in NIW, up 14% year-over-year, which significantly exceeded our estimate of \$14.6bn.

► RDN's book value per share increased during 2Q18 by 6% sequentially to \$15.01. The company's shares trade at 1.17x book value, a fraction of what its valuation had been in January before the GSE and pricing fears arose. We believe such qualms are overblown, and in any event, they are more than priced into RDN's shares.

► Insurance in force (IIF), the primary source of RDN's revenues and earnings, increased during 2Q18 by 3% sequentially to \$210.7bn. That growth was aided by persistency – the percentage of mortgage insurance that remains in force after a 12-month period – of 80.9%, up from 78.5% in the prior year period.

► If there was a smudge on RDN's otherwise strong 2Q18 report it was the Mortgage and Real Estate Services unit's adjusted EBITDA margin. Management had guided for the unit to achieve by 2H18 run-rate revenues of \$150-\$175mm and an EBITDA margin of 10% to 15%. While the Services unit's 2Q18 revenues were \$40.5mm, its EBITDA margin was just 6%.

### RDN

12 month target

**\$17.85**

\$26.00

### BUY

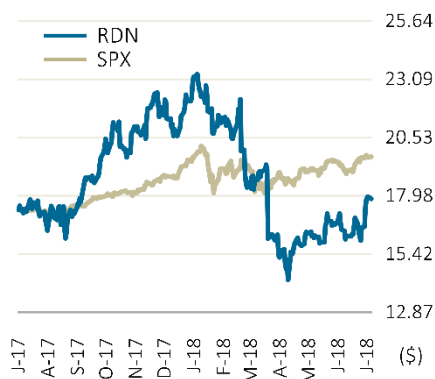
52 week range

\$14.30 - \$23.31

Market Cap (m)

\$3,925

#### Price Performance



Source: IDC

- ▶ RDN will host a conference call this morning at 10am ET. Our estimates are under review pending the conference call.

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## BTIG Covered Companies Mentioned in this Report

RADIAN GROUP, INC. (RDN, Buy, \$26.00 PT; Current Price: \$17.85; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

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I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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#### Radian Group, Inc. (RDN, Buy, \$26.00 PT)

**Valuation:** Our \$26 price target for RDN is based on 10x our FY19E EPS of \$2.56. The multiple we employ is based on comparable company analysis.

**Risks:** The primary risks to our thesis include: Additional moves by the FHA to make its mortgage insurance offering more competitive could adversely impact demand for RDN's product. Competition with other PMIs could result in lower revenues and/or lower premium yields. A downturn in the U.S. economy could result in higher delinquencies and higher losses on RDN's existing portfolio.

# Radian Group, Inc. (RDN)

(\$)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
09-Mar-15	16.17	22	Mark Palmer	Buy
20-Dec-17	22.11	26	Mark Palmer	Buy

## Other Disclosures

Additional Information Available Upon Request

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