

Equity Research

October 17, 2018

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Financials

MGIC Investment Corporation

Flash Note: 3Q18 Earnings Beat Driven by Loss Reserve Release; Dividend Boosted to \$60mm

MGIC Investment Corp. (MTG) this morning posted a solid 3Q18 earnings beat – \$0.48 per share versus the consensus estimate of \$0.37 and our estimate of \$0.39 – as a loss reserve release facilitated a \$59mm reduction in losses incurred versus the prior year period.

- ▶ MTG during the quarter posted \$14.5bn in new insurance written (NIW), up 9.8% sequentially and 2.8% versus the prior year period. That result was well ahead of BTIG's estimate of \$13.7bn.
- ▶ After MTG management last December stated that while they anticipated that the company's minimum required assets would decrease when the latest iteration of the Private Mortgage Insurer Eligibility Requirements – the so-called "PMIERS 2.0" – became effective, they added that they believed the company would be able to maintain quarterly dividends from its insurance subsidiary to its holding company at a quarterly rate of \$50mm. MTG this morning stated that its insurance sub had paid a \$60mm dividend to its holdco based on its strong capital position after the finalization of the eligibility requirements.
- ▶ While shares of MTG have rallied off their late April lows, the stock trades at 1.31x book value, still well below its valuation in late January. The company's book value per share during 3Q18 increased by 5.3% sequentially to \$9.64. We expect the stock to rally nicely today.
- ▶ MTG during 3Q18 generated net premiums earned of \$250.4mm, well ahead of the consensus estimate of \$237.9mm thanks in large part to the positive loss development during the quarter.
- ▶ Since MTG provides monthly data on its insurance in force (IIF) – the primary source of its revenues and earnings – the company's report of \$205.8bn in IIF at September 30 was not "new news." That figure represented a 1.6% sequential increase and a 7.2% increase versus the prior year period.
- ▶ MTG will host a conference call this morning at 10am ET (844.231.8825). Our estimates are under review.

MTG

\$12.66

12 month target

\$18.00

BUY

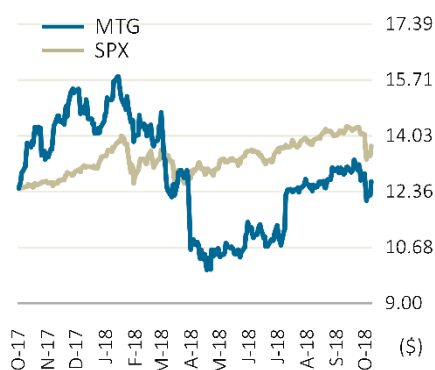
52 week range

\$10.01 - \$15.81

Market Cap (m)

\$4,860

Price Performance



Source: IDC

BTIG Covered Companies Mentioned in this Report

MGIC INVESTMENT CORPORATION (MTG, Buy, \$18.00 PT; Current Price: \$12.66; Analyst: Mark.Palmer)

Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, 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.

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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Company Valuation and Risk Disclosures

MGIC Investment Corporation (MTG, Buy, \$18.00 PT)

Valuation: Our price target of \$18 for MTG is based on 11x our 2019E EPS of \$1.60. The multiple we employ is based on comparable company analysis.

Risks: The primary risks to our thesis include: Competition with other PMIs could result in lower revenues and/or lower premium yields. Additional moves by the FHA to make its mortgage insurance offering more competitive

could adversely impact demand for MTG's product. A downturn in the U.S. economy could result in higher delinquencies and higher losses on MTG's existing portfolio.

MGIC Investment Corporation (MTG)

(\$)



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

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
09-Mar-15	9.27	12	Mark Palmer	Buy
20-Jul-17	11.76	14	Mark Palmer	Buy
14-Nov-17	13.63	16	Mark Palmer	Buy
20-Dec-17	15.12	18	Mark Palmer	Buy

Company-Specific Regulatory Disclosures

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Other Disclosures

Additional Information Available Upon Request

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