

Equity Research

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Financials

MBIA, Inc.

Post Mortem on MBI's 4Q15 Conference Call; Reiterating Buy While Increasing PT to \$13 (from \$11)

After MBIA (MBI) last evening reported 4Q15 results highlighted by a new \$100mm share repurchase authorization and yet another buyback-driven increase in its adjusted book value (ABV), the company this morning followed up with a conference call that touched on management's thinking about share buybacks going forward; the new business activity and excess capital level at National Public Guarantee Corp., its municipal bond insurance unit; and the company's plans for managing its exposure to the Zohar CDOs at MBIA Insurance Corp.

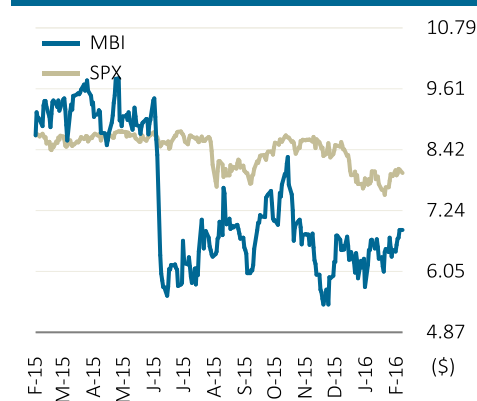
- **We are reiterating our Buy recommendation on MBI while increasing our price target to \$13 (from \$11)** based on 50% of our pro forma estimate of the company's ABV per share of \$32.24 – reflecting share buybacks executed through February 25 – adjusted for estimated losses of \$5.49 per share related to its insured exposure to Puerto Rico's debt.
- CEO Jay Brown said that while he expects MBI's pace of share buybacks will slow relative to the pace seen during the last five quarters and that it will depend on the levels of liquidity and leverage at the holding company as well as how events around Puerto Rico's debt restructuring unfold. He added that if MBI's stock price remains low the company would "figure out a way" to continue to buy back shares as quickly as possible.
- National wrote 26 policies during 4Q15, up from 19 in 3Q15, nine in 2Q15 and five in 1Q15, with the unit's "sweet spot" in terms of size in the \$10mm-\$25mm range. Fallon noted that the penetration rate of municipal bond insurance increased to 6.7% in 2015 from 5.5% in 2014 but that penetration remained constrained by low interest rates that undermine the value proposition of the product.
- **Valuation:** Our \$13 price target on MBI is based on 50% of our pro-forma estimate of the company's ABV per share of \$32.24 adjusted for estimated losses of \$5.49 per share related to its insured exposure to Puerto Rico's debt.

MBI **\$6.86**
12 month target \$13.00

BUY

52 week range \$5.41 - \$9.81
Market Cap (m) \$902

Price Performance



Source: IDC

Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 E	2Q16 E	3Q16 E	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.37	0.36	(0.23)	0.54	1.08	0.09	0.08	0.07	0.06	0.31	0.24
Operating Income	68	63	(35)	82	178	12	10	9	8	39	29

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

Please Read: Important disclosures and analyst's certification appear in Appendix

- ▶ While MBIA Insurance Corp. during 4Q15 paid a claim of \$149mm on its insured exposure to Zohar I, Brown said the unit is pursuing recoveries on the loans underlying the CDO and that he believes it will ultimately achieve a 100% recovery on the exposure. Brown said MBI is putting together a plan that would enable the unit to address its insured exposure to the \$776mm Zohar II CDO that matures in early 2017 that could involve some sort of restructuring of the CDO notes combined with raising liquidity at the unit.
- ▶ Brown added that he did not believe MBIA Insurance Corp. would need to be put into rehabilitation by its regulators. As we have noted, the resolution of the Zohar situation should have no impact on MBI's equity insofar as the cross default between MBIA Insurance Corp. and the holding company was removed in December 2012.

Income Statement

MBIA Operating Model (\$ Millions)	Dec-11 2011A	Dec-12 2012A	Dec-13 2013A	Dec-14 2014A	Mar-15 1Q15A	Jun-15 2Q15A	Sep-15 3Q15A	Dec-15 4Q15A	Dec-15 2015A	Mar-16 1Q16E	Jun-16 2Q16E	Sep-16 3Q16E	Dec-16 4Q16E	Dec-16 2016E	Dec-17 2017E
Scheduled premiums earned	457.0	372.0	304.0	258.0	55.0	51.0	47.0	46.0	199.0	43.7	41.5	39.4	37.5	162.1	140.7
Refunding premiums earned	148.0	232.0	153.0	139.0	46.0	40.0	37.0	50.0	173.0	47.5	46.3	45.2	44.0	183.0	161.1
Total premiums earned	605.0	604.0	457.0	397.0	101.0	91.0	84.0	96.0	372.0	91.2	87.8	84.6	81.5	345.1	301.9
Net investment income	408.0	214.0	166.0	179.0	37.0	37.0	38.0	40.0	152.0	40.4	40.8	41.2	41.6	164.0	170.7
Fees and reimbursements	27.0	61.0	21.0	40.0	1.0	2.0	1.0	2.0	6.0	5.0	5.0	5.0	5.0	20.0	21.0
Realized gains (losses) and other settlements on insured derivatives	(2,370.0)	(406.0)	(1,545.0)	(444.0)	(9.0)	(3.0)	(18.0)	2.0	(28.0)	-	-	-	-	-	-
Unrealized losses on insured derivatives	(440.0)	1,870.0	1,777.0	903.0	37.0	63.0	21.0	36.0	157.0	-	-	-	-	-	-
Other than temporary impairments recognized in AOCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value of insured derivatives	(2,810.0)	1,464.0	232.0	459.0	28.0	60.0	3.0	38.0	129.0	-	-	-	-	-	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(99.0)	55.0	69.0	78.0	30.0	45.0	(55.0)	43.0	63.0	-	-	-	-	-	-
Investment losses related to other-than-temporary impairments	(125.0)	(58.0)	13.0	(99.0)	3.0	(9.0)	(1.0)	(2.0)	(9.0)	-	-	-	-	-	-
Other-than-temporary impairments recognized in AOCI	24.0	(47.0)	15.0	84.0	(4.0)	2.0	(2.0)	(1.0)	(5.0)	-	-	-	-	-	-
Net investment losses related to other-than-temporary impairments	(101.0)	(105.0)	28.0	(15.0)	(1.0)	(7.0)	(3.0)	(3.0)	(14.0)	-	-	-	-	-	-
Other net realized gains (losses)	21.0	8.0	(28.0)	26.0	20.0	(1.0)	(1.0)	(1.0)	17.0	-	-	-	-	-	-
<i>Revenues of consolidated VIEs</i>															
Net investment income	73.0	67.0	43.0	50.0	12.0	13.0	12.0	49.0	86.0	-	-	-	-	-	-
Net gains (losses) on financial instruments at fair value and foreign exchange	40.0	18.0	160.0	50.0	(10.0)	6.0	13.0	33.0	42.0	-	-	-	-	-	-
Net gains (losses) on extinguishment of debt	280.0	49.0	61.0	6.0	-	(1.0)	-	-	(1.0)	-	-	-	-	-	-
Total revenues	(1,556.0)	2,435.0	1,209.0	1,270.0	218.0	245.0	92.0	297.0	852.0	136.6	133.6	130.8	128.1	529.2	493.6
Losses and loss adjustments	(81.0)	50.0	117.0	133.0	(6.0)	46.0	39.0	44.0	123.0	15.0	15.0	15.0	15.0	60.0	60.0
Amortization of deferred acquisition costs	64.0	50.0	46.0	44.0	13.0	13.0	11.0	13.0	50.0	11.1	10.5	10.0	9.5	41.0	31.6
Operating	309.0	382.0	327.0	195.0	35.0	32.0	35.0	38.0	140.0	38.2	38.4	38.6	38.8	153.9	157.0
Interest	300.0	283.0	236.0	210.0	50.0	50.0	49.0	50.0	199.0	48.8	47.5	46.3	45.2	187.8	169.7
Expenses of consolidated VIEs															
Operating	29.0	17.0	11.0	8.0	4.0	3.9	3.0	3.0	13.9	2.9	2.9	2.8	2.7	11.3	10.2
Interest	62.0	55.0	45.0	39.0	10.0	9.0	10.0	10.0	39.0	9.0	9.0	9.0	9.0	36.0	36.0
Total expenses	683.0	837.0	782.0	629.0	106.0	153.9	147.0	158.0	564.9	124.9	123.3	121.7	120.1	490.0	464.5
Pre-tax income	(2,239.0)	1,598.0	427.0	641.0	112.0	91.1	(55.0)	139.0	287.1	11.7	10.4	9.1	8.0	39.2	29.0
Provision (benefit) for income taxes	(920.0)	364.0	166.0	72.0	44.0	28.0	(20.0)	57.0	109.0	-	-	-	-	-	-
Net income	(1,319.0)	1,234.0	261.0	569.0	68.0	63.1	(35.0)	82.0	178.1	11.7	10.4	9.1	8.0	39.2	29.0
Diluted EPS	(6.69)	6.33	1.35	3.02	0.37	0.36	(0.23)	0.54	1.08	0.09	0.08	0.07	0.06	0.31	0.24
Diluted shares outstanding	197.02	194.90	193.92	188.27	182.74	173.20	155.20	151.50	165.66	131.50	129.00	126.50	124.00	127.75	119.75

Source: BTIG Research Estimates and Company Documents

Appendix: Analyst Certification and Other Important Disclosures

Analyst Certification

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

MBIA, Inc. (MBI, Buy)

Valuation: Our \$13 price target on MBI is based on 50% of our pro-forma estimate of the company's ABV per share of \$32.24 adjusted for estimated losses of \$5.49 per share related to its insured exposure to Puerto Rico's debt.

Risks: The primary risks to our valuation include greater than expected losses with respect to insured exposure to Puerto Rico's debt. Increased losses on the broader insured municipal portfolio. The potential negative impact of a credit rating downgrade on ability to write new business.

MBIA, Inc. (MBI)



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

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
30-Nov-11	9.70	22.50	Mark Palmer	Buy
30-Jun-14	11.04		Mark Palmer	Neutral
15-Aug-14	10.49	12	Mark Palmer	Buy
12-May-15	9.09	13	Mark Palmer	Buy
29-Jun-15	6.37		Mark Palmer	Neutral
23-Jul-15	6.29	10	Mark Palmer	Buy
05-Nov-15	8.28	11	Mark Palmer	Buy

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