

Equity Research

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Financials

Radian Group, Inc.

RDN Exceeds High Expectations Bar with 3Q16 EPS Beat, Posts 40% Growth in New Insurance Written

Given the ferocity of the recent rally in shares of Radian Group (RDN), the expectations bar had been raised significantly heading into the company's release of its 3Q16 results this morning. Indeed, we had heard some investors voice concern that after RDN shares rallied by almost 54% in under four months the stock may have come too far, too fast., so a solid earnings performance was clearly needed to sustain the surge.

- Whether it will be enough to keep the rally going remains to be seen, but RDN this morning reported 3Q16 results that provided ample confirmation of the company's operating momentum. The company reported adjusted earnings per share of \$0.41, beating the consensus estimate (and our estimate) of \$0.39.
- RDN's earnings beat was facilitated by 3Q16 revenue of \$320.9mm, exceeding the consensus estimate of \$302.1 and our estimate of \$308.5mm. That outperformance was driven in turn by net premiums earned of \$238.1mm, outpacing the consensus estimate of \$230.0mm and our estimate of \$238.8mm.
- Meanwhile, RDN during 3Q16 set the stage for future growth in net premiums earned by posting new insurance written (NIW) of \$15.7bn, up 40% year-over-year and well above our estimate of \$10.3bn. The company during the quarter wrote the highest volume of new flow insurance business in its 40-year history.
- **We are reiterating our Buy recommendation on RDN and price target of \$22** based on 12x our 2017E EPS of \$1.80. Even after the stock's strong rally it trades at just 1.07x book value as of September 30, a level that is still well below RDN's average price-to-book value over the past three years of 1.7x – it reached almost 2.9x book value in mid-2014, a level akin to those achieved by the company prior to the financial crisis –implying that the stock still has ample room to run from a valuation standpoint.
- **Valuation:** Our price target of \$22 for RDN is based on 12X our 2017E EPS of \$1.80

RDN

\$14.35

12 month target

\$22.00

BUY

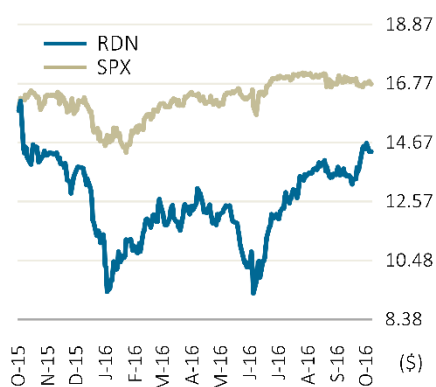
52 week range

\$9.32 - \$14.65

Market Cap (m)

\$3,246

Price Performance



Source: IDC

Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 A	3Q16 A	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.39	0.22	0.29	0.32	1.23	0.37	0.38	0.41	0.41	1.57	1.80
BVPS (Ex-AOCI)	11.54	12.19	11.71	12.07	12.07	13.06	13.09	13.47	14.01	14.01	16.38

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

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

- ▶ Thanks to RDN's strong 3Q16 operating performance, its book value per share increased during the quarter by 14% versus the prior year period to \$13.47.
- ▶ RDN's credit quality remained benign during 3Q16 as it reported primary delinquent loans down 1% sequentially and 18% year-over-year.

Income Statement

Radian - Operating Model	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17
\$ Millions	2014A	2015A	1Q16A	2Q16A	3Q16A	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Net premiums earned - insurance	871.23	915.91	220.95	229.09	238.15	241.70	929.88	244.16	248.97	255.81	260.26	1,009.20
Services revenue	76.69	153.71	31.60	38.29	43.10	38.99	151.98	33.18	40.21	45.25	40.94	159.58
Net investment income	92.68	81.54	27.20	28.84	28.43	29.14	113.61	29.72	30.32	30.92	31.54	122.51
Net gains (losses) on investments	122.49	35.69	31.29	30.53	7.71	-	69.52	-	-	-	-	-
Change in fair value of derivatives	126.92	-	-	-	-	-	-	-	-	-	-	-
Net losses on other financial instruments	(0.90)	-	-	-	-	-	-	-	-	-	-	-
Other income	5.91	6.40	1.92	3.42	3.50	1.53	10.37	2.68	2.70	2.73	2.76	10.87
Total revenues	1,295.01	1,193.25	312.95	330.17	320.88	311.36	1,275.37	309.74	322.20	334.71	335.50	1,302.17
Provision for losses	249.55	198.59	42.99	49.73	55.79	52.35	200.85	52.88	53.92	55.40	56.37	218.57
Policy acquisition costs	29.51	22.42	6.39	5.39	6.12	6.15	24.05	6.18	6.21	6.24	6.27	24.91
Direct cost of services	43.61	89.16	21.75	24.86	26.70	26.84	100.15	26.97	27.11	27.24	27.38	108.70
Other operating expenses	267.52	246.96	58.99	65.68	64.86	65.19	254.72	65.51	65.84	66.17	66.50	264.02
Interest expense	90.46	91.10	21.53	22.55	19.78	19.78	83.65	19.78	19.78	19.78	19.78	79.13
Amortization of intangible assets	8.65	3.02	-	-	-	-	-	-	-	-	-	-
Loss on induced conversion and debt extinguishment	-	94.21	55.57	2.11	17.40	-	75.08	-	-	-	-	-
Change in reserve for premium deficiency	0.85	9.96	3.33	3.31	3.29	-	9.93	-	-	-	-	-
Total expenses	690.15	755.42	210.55	173.62	193.94	170.30	748.41	171.33	172.86	174.84	176.30	695.32
Pretax income from continuing operations	604.87	437.83	102.40	156.55	126.94	141.06	526.95	138.42	149.34	159.88	159.20	606.84
Income tax expense (benefit)	(804.35)	156.29	36.15	58.44	44.14	49.37	188.10	48.45	52.27	55.96	55.72	212.39
Net income (loss) from continuing operations	1,409.22	281.54	66.25	98.11	82.80	91.69	338.85	89.97	97.07	103.92	103.48	394.45
Income (loss) from discontinued operations	(449.70)	5.39	-	-	-	-	-	-	-	-	-	-
Net income (loss)	959.52	286.92	66.25	98.11	82.80	91.69	338.85	89.97	97.07	103.92	103.48	394.45
Diluted EPS - continuing operations	6.03	1.14	0.28	0.43	0.37	0.41	1.48	0.41	0.44	0.48	0.48	1.80
Diluted EPS - discontinued operations	(1.93)	0.02	-	-	-	-	-	-	-	-	-	-
Diluted EPS	4.11	1.23	0.37	0.38	0.41	0.41	1.57	0.41	0.44	0.48	0.48	1.80
Diluted shares outstanding	233.58	247.11	239.71	226.20	224.70	223.20	228.45	221.70	220.20	218.70	217.20	219.45
Tax rate	-133.0%	35.7%	35.3%	37.3%	34.8%	35.0%	35.7%	35.0%	35.0%	35.0%	35.0%	35.0%
Book Value per diluted share	10.98	12.07	13.06	13.09	13.47	14.01	14.01	14.52	15.10	15.74	16.38	16.38
Average primary IIF	167,097.3	173,821.5	175,485.0	176,529.0	179,418.5	182,070.8	179,299.9	183,925.3	187,550.7	192,699.0	196,052.8	191,801.8
Total primary NIW	37,349.0	41,411.0	8,071.0	12,921.0	15,656.0	10,008.9	46,656.9	10,088.8	13,631.7	13,464.2	10,509.3	47,693.9
Average premium rate	0.52%	0.53%	0.50%	0.52%	0.53%	0.53%	0.52%	0.53%	0.53%	0.53%	0.53%	0.53%

Source: BTIG Estimates and Company Documents

BTIG Covered Companies Mentioned in this Report

RADIAN GROUP, INC. (RDN, Buy, \$22.00 PT; Current Price: \$14.35; Analyst: mark.palmer)

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

Radian Group, Inc. (RDN, Buy, \$22 PT)

Valuation: Our price target of \$22 for RDN is based on 12X our 2017E EPS of \$1.80

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

Other Disclosures

Additional Information Available Upon Request

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