

Radian Group Inc

Solid 4Q as housing credit remains a tailwind

Reiterate Rating: UNDERPERFORM | PO: 28.00 USD | Price: 27.29 USD

Reserve release drives beat

Radian Group (RDN) reported 4Q adj. revs/EPS of \$329M/\$0.96 above BofAe and consensus at \$322M/\$0.82 and \$322M/\$0.89, respectively. Relative to our forecast, the beat was driven by a \$49M reserve release and a \$13M gain on sale of investments, somewhat offset by higher operating expenses and lower premium revenue. NIW was slightly below expectations, but the company continues to benefit from higher persistency, stabilizing IIF. Book value was solidly up 4.3% q/q and 15% y/y. Positively, RDN also signaled it could increase the pace of capital returns in 2024.

Like other mortgage insurers RDN is benefitting from the favorable housing credit backdrop and growing book value nicely. However, we think investors can gain exposure to the sector, without the headwind from homegenius from other companies in the sector (e.g. ACT, MTG, ESNT) and we reiterate our Underperform rating.

Key metrics – variance table on page 3

New insurance written (-) of \$10.6B was below BofAe/consensus at \$11.9B/\$12.0B. Insurance in force was effectively flat q/q and up 3% y/y to \$270B. 12-month persistency remained elevated at 84.0% vs 3Q23 at 83.6% as driven by high rates.

Total revenue (+/-) was \$329M was above BofAe/consensus at \$322M due to a \$13M gain on sale of investments, which offset a slight miss on premium revenue. Average net premium rate of 34.2bps was below BofAe/consensus at 35.3bps/35.0bps. The in-force portfolio yield was up slightly to 38.1bps vs. 38.0 at 3Q.

Credit / reserves (+): Provision for losses was \$4M vs BofAe/consensus at \$34M/\$22M. Current period losses were \$54, though this was mostly offset by a \$49M reserve release. The default rate increased 18bps to 2.21% from 2.03% in 3Q23.

Homegenius (+/-) total revenues of \$15M was above BofAe of \$13M but below consensus of \$19M. Adj. pre-tax operating loss was \$18M vs a loss of \$21M in 3Q.

Updating estimates and PO

We tweak our 2024/2025 EPS estimates to \$3.09/\$3.13 from \$3.20/\$3.22 as we account for the print. We adjust our PO to \$28 (\$26 prior), based on a 9x PE multiple to 2024e (8x prior), to reflect the favorable housing credit backdrop.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.15	4.87	3.88	3.09	3.13
GAAP EPS	3.16	4.35	3.77	3.06	3.09
EPS Change (YoY)	84.2%	54.6%	-20.3%	-20.4%	1.3%
Consensus EPS (Bloomberg)			3.81	3.47	3.65
DPS	0.55	0.80	0.90	0.90	0.90
Valuation (Dec)					
P/E	8.7x	5.6x	7.0x	8.8x	8.7x
GAAP P/E	8.6x	6.3x	7.2x	8.9x	8.8x
Dividend Yield	2.0%	2.9%	3.3%	3.3%	3.3%

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12657437

Timestamp: 08 February 2024 03:53PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	26.00	28.00

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Stock Data

Price	27.29 USD
Price Objective	28.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-3-7
52-Week Range	20.01 USD -29.70 USD
Mrkt Val / Shares Out (mn)	5,221 USD / 191.3
Free Float	99.1%
Average Daily Value	23.97 USD
BofA Ticker / Exchange	RDN / NYS
Bloomberg / Reuters	RDN US / RDN.N
ROE (2023E)	18.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

IIF: Insurance in force

NIW: New insurance written

MI: Mortgage insurance

iQprofileSM Radian Group Inc

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	1,037	981	920	938	954
Net Investment Income	148	196	258	302	313
Total Revenue	1,330	1,191	1,241	1,296	1,328
Total Cost of Benefits and Claims	(21)	338	43	(208)	(246)
S,G & A (Including Commissions)	(267)	(261)	(237)	(239)	(243)
Total Operating Expenses	(562)	(234)	(458)	(694)	(745)
Pre-Tax Operating Earnings	768	957	783	602	583
Income Tax Expense	(164)	(210)	(164)	(131)	(127)
Operating Earnings After Tax	599	831	620	469	455
Net Income (Reported)	604	747	618	471	456
Diluted Shares	190	171	160	152	145
Operating Earnings Per Share	3.15	4.87	3.88	3.09	3.13
Net Income (Reported) Per Share	3.16	4.35	3.77	3.06	3.09

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	6,666	5,750	6,106	6,489	6,875
Total Assets	7,839	7,064	7,594	7,976	8,367
Reserves	NA	NA	NA	NA	NA
LT Debt	1,560	1,569	1,537	1,542	1,546
Total Liabilities	3,580	3,144	3,196	3,313	3,454
Total Equity	4,259	3,919	4,398	4,663	4,913
Total Equity (Ex FAS 115)	4,259	3,919	4,398	4,663	4,913
Book Value per Share (Reported)	24.28	24.95	28.71	31.83	34.99
Book Value per Share (Ex FAS 115)	24.28	24.95	28.71	31.83	34.99

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	25.8%	26.6%	25.8%	25.5%	25.5%
Loss Ratio	2.0%	-34.5%	-4.6%	22.1%	25.7%
Combined Ratio	27.8%	-7.9%	21.2%	47.6%	51.2%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	1.8x	1.8x	1.8x	1.7x	1.7x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	-7.0%	-5.4%	-6.3%	2.0%	1.7%
Net Investment Income	-4.0%	32.3%	32.1%	17.0%	3.6%
Total Revenue	-7.6%	-10.5%	4.2%	4.5%	2.5%
Operating Earnings per Share	84.2%	54.6%	-20.3%	-20.4%	1.3%
Asset	-1.4%	-9.9%	7.5%	5.0%	4.9%
Reported Book Value per Share	8.6%	2.8%	15.0%	10.9%	9.9%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	18.3%	25.4%	18.9%	14.3%	13.9%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	7.6%	11.2%	8.5%	6.0%	5.6%
Operating Margin	45.1%	69.8%	50.0%	36.2%	34.3%
Long Term Debt to Cap Ratio (Ex FAS 115)	26.8%	28.6%	25.9%	24.8%	23.9%
Net Income % Operating Income	100.8%	89.9%	99.7%	100.4%	100.1%
Amtz of DAC % Pretax Profit bef Amtz of DAC	3.6%	2.4%	3.0%	4.0%	4.2%

Company Sector

Mortgage Finance

Company Description

Radian Group (RDN) provides mortgage insurance and risk management services to lenders throughout the United States. RDN is based in Philadelphia, PA. The company operates through two segments: Mortgage Insurance and Mortgage and Real Estate Services. RDN is one of the largest private mortgage insurance companies in the country by insurance in-force.

Investment Rationale

We rate RDN at Underperform. RDN should be able to grow earnings as it grows insurance in-force and benefits from higher investment income. While we expect RDN's MI business to perform in line with the MI industry, with shares trading at a premium to peers, we view the relative risk/reward as less attractive and prefer other companies in the sector. RDN also has more execution risk due to its homegenius segment.

Stock Data

Average Daily Volume 878,526

Quarterly Earnings Estimates

	2022	2023
Q1	1.17A	0.98A
Q2	1.36A	0.91A
Q3	1.31A	1.04A
Q4	1.05A	0.96E

Exhibit 1: Reserve releases and GoS income drove the EPS beat

Variance table

	Q4'22A	Q3'23A	Q4'23E	Q4'23A	VAR	QoQ	YoY	Consensus
Adjusted EPS	\$1.05	\$1.04	\$0.82	\$0.96	\$0.14	(7.7%)	(9.0%)	\$0.89
Net premiums earned - insurance	232,827	240,262	240,306	232,649	(\$0.04)	(3.2%)	(0.1%)	238,440
Services revenue	15,441	10,892	10,152	12,419	\$0.01	14.0%	(19.6%)	11,560
Other revenue	66,456	61,359	72,001	83,576	\$0.06	36.2%	25.8%	66,950
Total Revenue	314,724	312,513	322,459	328,644	\$0.03	5.2%	4.4%	322,300
Provision for losses	(43,599)	(8,135)	33,864	4,170	\$0.14	(151.3%)	(109.6%)	21,900
Direct cost of services	16,128	8,886	8,220	8,950	(\$0.00)	0.7%	(44.5%)	8,800
Other expenses	138,897	110,779	117,952	135,707	(\$0.09)	22.5%	(2.3%)	114,700
Total Expenses	111,426	111,530	160,036	148,827	\$0.05	33.4%	33.6%	143,300
Pretax income	203,298	200,983	162,423	179,817	\$0.08	(10.5%)	(11.6%)	178,900
Income tax provision	40,968	44,401	35,882	37,124	(\$0.01)	(16.4%)	(9.4%)	37,300
Net Income from Continuing Operations	162,330	156,582	126,541	142,693	\$0.10	(8.9%)	(12.1%)	139,800
Net Income - Diluted	162,330	156,582	126,541	142,693		(8.9%)	(12.1%)	139,800
Key Statistics								
Mortgage insurance:								
Loss ratio (calc)	(18.9%)	(3.5%)	14.2%	2.0%		5.5%	20.9%	11.0%
Expense ratio (MI Only)	27.3%	23.4%	28.3%	25.5%		2.0%	(1.8%)	25.3%
Combined Ratio	8.4%	19.9%	42.5%	27.5%		7.5%	19.1%	36.4%
Adjusted pre-tax operating earnings by segment								
Mortgage Insurance	241,907	219,229	168,013	197,797		(9.8%)	(18.2%)	183,900
Services	(31,466)	(20,932)	(19,564)	(17,876)		(14.6%)	(43.2%)	(16,900)
New Primary Insurance Written (NIW)	12,859,000	13,922,000	11,910,009	10,629,000		(23.7%)	(17.3%)	12,000,000
Insurance in-force (IIF)	260,994,000	269,511,000	269,629,903	269,979,000		0.2%	3.4%	265,800,000
Average Premium Rate (Premium Earned / Average IIF)	0.354%	0.353%	0.353%	0.342%		(0.012%)	(0.012%)	0.40%
Number of loans in default	21,913	20,406	21,496	22,111		8.4%	0.9%	22,219
Default Rate (as a % of number of loans)	2.18%	2.03%	2.15%	2.21%		0.18%	0.03%	2.20%
Book Value per Share	\$24.95	\$26.69	\$27.52	\$28.71		7.6%	15.0%	\$27.76
Return on Assets (GAAP)	9.2%	8.5%	6.8%	7.6%		(0.9%)	(1.6%)	8.0%
Return on Equity (GAAP)	17.0%	15.0%	12.1%	13.4%		(1.7%)	(3.6%)	14.2%

Source: BofA Global Research estimates, Visible Alpha, company reports

BofA GLOBAL RESEARCH



Price objective basis & risk

Radian Group Inc (RDN)

Our \$28 PO is based on an 9x PE multiple to our 2024 EPS forecast. A 9x PE multiple is in line with the recent range for mortgage insurance (MI) stocks (6.5-8.5x) and reflects the solid operating backdrop for mortgage insurance, somewhat offset by execution risk from the homegenius segment.

Upside risks to our price objective are stronger than expected economic growth, fewer loan delinquencies and strong housing credit performance which could lead to elevated new business written and fewer mortgage defaults. Execution in the homegenius segment could also be better than forecast and lead to higher / faster profit growth.

Downside risks to our price objective are an economic downturn, which could lead to elevated defaults on mortgages and fewer mortgage originations, increased competitive pressures and price competition from private and / or government competitors. Changes to the regulatory environment could also impact future returns. Successful M&A integration could also be a risk.

Analyst Certification

I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

UNDERPERFORM

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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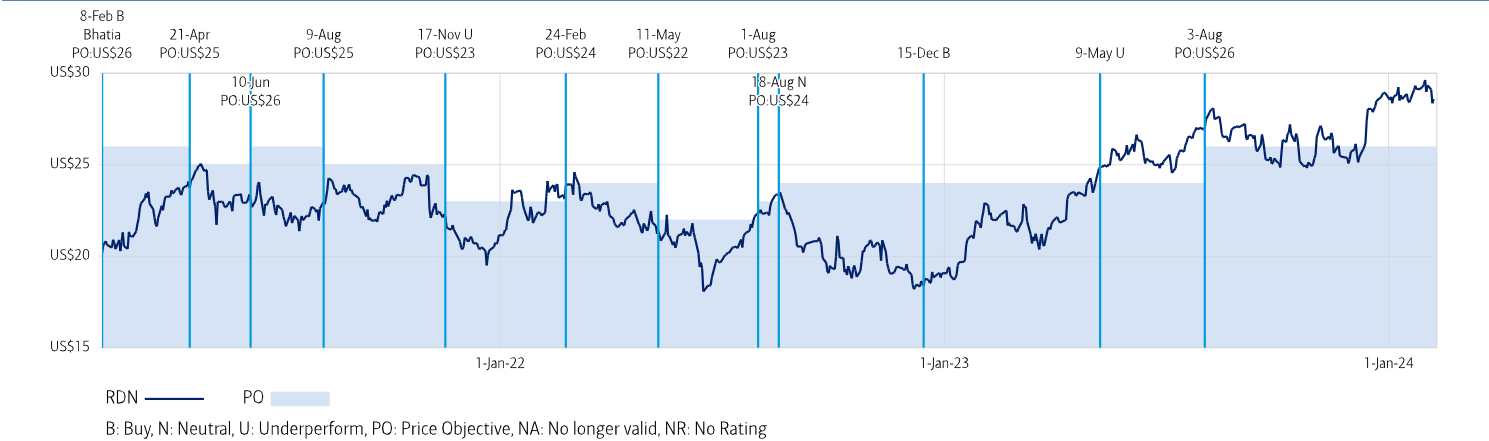
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Disclosures

Important Disclosures

Radian Group (RDN) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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