

## RenaissanceRe

# Significant 4Q23 beat on favorable development and Validus integration

Reiterate Rating: BUY | PO: 313.00 USD | Price: 215.06 USD

## 4Q23 operating EPS of \$11.77

RenRe's 4Q23 operating EPS of \$11.77 exceeded our forecast of \$8.49 and consensus of \$8.29. The beat comes from higher investment income (more assets and at a higher yield) of \$377mn vs. our forecast of \$349mn as well as higher underwriting (\$470mn vs. \$389mn) and fee income (\$71mn vs. \$65mn). The non-controlling interests, who own some of the investment and underwriting income, offset these tailwinds, claiming \$36mn more of the operating economics compared with our forecast. Catastrophe losses were low, and net favorable loss reserve development was strong. The \$11.77 does not include an additional \$594mn (over \$11/sh) related to the creation of a new deferred tax asset created by Bermuda's new tax laws adopting a 15% income tax in 2025. We expect RenRe's "cash earnings" to be higher than GAAP/operating earnings going forward.

## Color about 1/1 renewals to come tomorrow

Commentary regarding the January 1 renewal was sparse in the evening press release, but our expectation is that RenRe might surprise with its 1/1 growth outlook. In addition to the opportunity to renew about \$3bn in Validus-related premium, RenRe has significantly more capital at its disposal compared with a year earlier: about \$1.2bn more of common equity, \$750mn more of debt and almost \$1.6bn more of third-party capital. This expectation leads us to increase our forecast for 2024 gross written premium to \$12.1bn. Our higher-than-consensus EPS forecast of \$34.45/sh assumes \$1.5bn in "called-out" 2024 cat losses compared with \$354mn in 2023.

## Projecting higher investment income

RenRe's retained investment portfolio ended 2023 with a value (at cost) of \$22.4bn, higher than our \$21.5bn projection. Some boost comes from the accounting treatment of former Validus investments at the cost received by RenRe, rather than at their cost relative to maturity. Regardless, we underestimated the portfolio value with the fixed maturity portion having a higher yield and are taking up our investment income forecast.

## Price objective to \$313; increasing EPS forecast

Our valuation methodology—a 20% "reinsurance/offshore" discount to the 2025 large-cap peer P/E multiple (currently 10.7x, previously 10x)—implies significant upside potential from the current stock price. Further, with 4Q23 book value per share of \$165.20, we believe a BVPS multiple of 1.3x book additionally offers downside protection for RNR shares. Reiterate Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.31	37.30	34.45	36.65	39.90
GAAP EPS	(25.50)	52.27	27.96	36.88	39.26
EPS Change (YoY)	327.5%	410.3%	-7.6%	6.4%	8.9%
Consensus EPS (Bloomberg)			32.84	33.94	34.18
DPS	1.48	1.52	1.56	1.60	1.64
Valuation (Dec)					
P/E	29.4x	5.8x	6.2x	5.9x	5.4x
GAAP P/E	NM	4.1x	7.7x	5.8x	5.5x
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.8%

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Timestamp: 30 January 2024 06:48PM EST

30 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	281.00	313.00
2024E EPS	32.10	34.45
2025E EPS	34.95	36.65
2026E EPS	38.15	39.90

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### Stock Data

Price	215.06 USD
Price Objective	313.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-1-7
52-Week Range	174.22 USD - 227.16 USD
Mkt Val (mn) / Shares Out (mn)	11,290 USD / 52.5
Free Float	98.1%
Average Daily Value (mn)	96.79 USD
BofA Ticker / Exchange	RNR / NYS
Bloomberg / Reuters	RNR US / RNR.N
ROE (2024E)	17.8%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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".

# iQprofile<sup>SM</sup> RenaissanceRe

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	6,334	7,471	10,055	10,834	11,473
Net Investment Income	560	1,253	1,628	1,783	1,940
<b>Total Revenue</b>	<b>5,060</b>	<b>9,135</b>	<b>11,896</b>	<b>12,749</b>	<b>13,474</b>
Total Cost of Benefits and Claims	(4,339)	(3,574)	(6,013)	(6,400)	(6,808)
S,G & A (Including Commissions)	(1,615)	(2,003)	(2,479)	(2,633)	(2,797)
<b>Total Operating Expenses</b>	<b>(6,279)</b>	<b>(6,025)</b>	<b>(8,960)</b>	<b>(9,480)</b>	<b>(10,047)</b>
<b>Pre-Tax Operating Earnings</b>	<b>(1,219)</b>	<b>3,110</b>	<b>2,936</b>	<b>3,269</b>	<b>3,427</b>
Income Tax Expense	59	510	(48)	(317)	(334)
<b>Operating Earnings After Tax</b>	<b>315</b>	<b>1,776</b>	<b>1,794</b>	<b>1,901</b>	<b>2,052</b>
<b>Net Income (Reported)</b>	<b>(1,061)</b>	<b>2,561</b>	<b>2,025</b>	<b>2,044</b>	<b>2,132</b>
Diluted Shares	43	48	52	52	51
Operating Earnings Per Share	7.31	37.30	34.45	36.65	39.90
Net Income (Reported) Per Share	(25.50)	52.27	27.96	36.88	39.26

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	14,351	20,877	0	0	0
Total Cash and Investments	23,415	31,094	35,438	38,972	43,258
<b>Total Assets</b>	<b>36,811</b>	<b>49,007</b>	<b>49,741</b>	<b>53,468</b>	<b>57,973</b>
Reserves	NA	NA	NA	NA	NA
LT Debt	1,170	1,959	1,959	1,469	1,469
<b>Total Liabilities</b>	<b>26,966</b>	<b>33,471</b>	<b>32,832</b>	<b>34,905</b>	<b>37,651</b>
<b>Total Equity</b>	<b>9,845</b>	<b>15,537</b>	<b>16,910</b>	<b>18,563</b>	<b>20,322</b>
<b>Total Equity (Ex FAS 115)</b>	<b>9,845</b>	<b>15,537</b>	<b>16,910</b>	<b>18,563</b>	<b>20,322</b>
Book Value per Share (Reported)	104.65	165.20	190.17	223.35	258.87
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	25.5%	26.8%	24.6%	24.3%	24.4%
Loss Ratio	68.5%	47.8%	59.8%	59.1%	59.3%
<b>Combined Ratio</b>	<b>94.0%</b>	<b>74.6%</b>	<b>84.5%</b>	<b>83.4%</b>	<b>83.7%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.5x	3.4x	3.0x	2.9x	2.9x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	21.9%	18.0%	34.6%	7.7%	5.9%
Net Investment Income	75.3%	123.8%	29.9%	9.5%	8.8%
Total Revenue	-4.1%	80.5%	30.2%	7.2%	5.7%
Operating Earnings per Share	327.5%	410.3%	-7.6%	6.4%	8.9%
Asset	8.4%	33.1%	1.5%	7.5%	8.4%
Reported Book Value per Share	-20.8%	57.9%	15.1%	17.4%	15.9%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	6.9%	20.4%	17.8%	16.2%	15.2%
Operating ROE (Ex FAS 115)	6.9%	20.4%	17.8%	16.2%	15.2%
Operating Return on Average Assets	0.9%	4.1%	3.6%	3.7%	3.7%
Operating Margin	6.2%	19.4%	15.1%	14.9%	15.2%
Long Term Debt to Cap Ratio (Ex FAS 115)	10.6%	11.2%	10.4%	7.3%	6.7%
Net Income % Operating Income	-348.6%	142.2%	110.9%	105.7%	102.2%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Non-Life

## Company Description

RenaissanceRe, formed out of the massive property-catastrophe losses in 1992's Hurricane Andrew, is widely considered the property-catastrophe reinsurance "specialist." During sliding prices for property-cat risk from 2012-2018, RenRe took it as an opportunity to broaden its underwriting footprint into more liability-sensitive risks. These investments have yet to prove their value, but the risk profile of the company is now fairly diversified.

## Investment Rationale

We believe that the RenRe business model makes its earnings results more levered to weather and seismic activity for better or for worse. While this creates more volatility, it also increasingly uncorrelated the results from financial markets broadly. Recent material increases in the company's premium footprint argue that it is less beholden to weather (and risk selection) as the sole input(s) in its results. We believe this new business will create strong annuity of future earnings.

## Stock Data

Average Daily Volume 450,056

## Quarterly Earnings Estimates

	2023	2024
Q1	8.16A	9.34E
Q2	8.80A	9.20E
Q3	8.33A	6.06E
Q4	11.76A	9.85E



## Price objective basis & risk

### RenaissanceRe (RNR)

Our \$313 PO is based on a 20% "reinsurance/offshore" discount to the 2025 large-cap peer P&C year-ahead P/E multiple (10.7x) on our 2025E EPS forecast. We view a discount as appropriate as reinsurance is viewed as a derivative market with less upside in an improving market for P&C underwriting margins.

Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook.

## Analyst Certification

I, Joshua Shanker, 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 - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### 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

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### 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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### 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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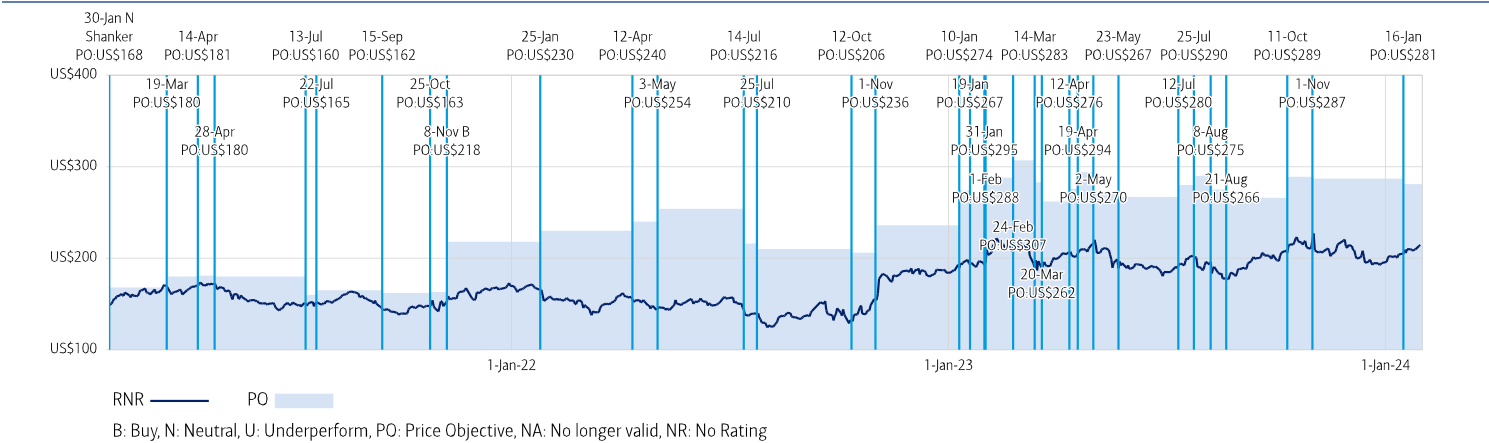
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RenaissanceRe (RNR) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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