

Enact Holdings

Shares deserve better after a solid 4Q

Reiterate Rating: BUY | PO: 34.00 USD | Price: 26.57 USD

Reserve release drives 4Q beat; reiterate Buy

We are somewhat surprised to see the ACT shares underperforming today, following a relatively solid 4Q print. 4Q EPS of \$0.98 was ahead of BofAe/cons. at \$0.90/\$0.93 driven by lower provision expense (+\$0.08/share) as ACT released \$53M in reserves. Overall, we think 4Q results were solid: book value per share grew 15% y/y and 4% q/q to \$29.07 (\$30.52 adj. for AOCI), credit is performing well, and ACT grew the insurance portfolio. Capital return should also remain solid and will likely be more share buyback weighted in 2024. We reiterate our Buy rating and note that ACT continues to benefit from the strong housing credit backdrop.

Please see inside for detail on 4Q23 operating metrics and variance table.

Conservative outlook underpins claim rate assumption

We note that ACT continues to use a 10% claim rate for new defaults. This is higher than its closest peers using 7.5-8.0%, and could be viewed as conservative. ACT has noted that the higher claim rate was due to more macroeconomic uncertainty not due to any weakness it is seeing in its own portfolio. ACT could lower its claim rate assumption if its macro outlook improves or its claim experience continues to perform well. In the interim, it will continue to take a conservative posture, which we note could drive elevated reserve releases at ACT relative to peers.

Enact Re approaches self-sufficiency

ACT contributed an additional \$250M to Enact Re and increased the quota share to 12.5% of in-force (vs. 7.5% prior). ACT believes Enact Re is now sufficiently funded for the foreseeable future. ACT also noted that Enact Re had entered into its first international transaction to reinsure mortgage loans in Australia. While the transaction is small and a proof point, ACT noted it had experience in the market and believes the transaction should earn attractive returns and expands ACT's market opportunity. That said, ACT emphasized that Enact Re remains primarily focused on the GSE CRT business.

Adjusting estimates and PO

We adjust our 2024/2025 EPS estimates to \$3.83/\$3.84 from \$3.72/\$3.88 prior. We also increase our PO from to \$34 from \$30 based on a 9x multiple to 2024e estimates (8x prior) as we account for strong book value growth and the continuing favorable housing credit backdrop.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | 4.31 | 4.11 | 3.83 | 3.84 | 3.91 |
| EPS Change (YoY) | 28.7% | -4.6% | -6.8% | 0.3% | 1.8% |
| Consensus EPS (Bloomberg) | | | 3.69 | 3.90 | 4.13 |
| DPS | 1.54 | 1.33 | 1.27 | 1.27 | 1.27 |
| Valuation (Dec) | | | | | |
| P/E | 6.2x | 6.5x | 6.9x | 6.9x | 6.8x |
| Dividend Yield | 5.8% | 5.0% | 4.8% | 4.8% | 4.8% |

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Timestamp: 07 February 2024 03:20PM EST

07 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|------------|----------|---------|
| Price Obj. | 30.00 | 34.00 |
| 2024E DPS | 0.64 | 1.27 |

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Stock Data

| | |
|----------------------------|----------------------|
| Price | 26.57 USD |
| Price Objective | 34.00 USD |
| Date Established | 7-Feb-2024 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 20.32 USD -29.49 USD |
| Mrkt Val / Shares Out (mn) | 4,243 USD / 159.7 |
| Free Float | 18.6% |
| Average Daily Value | 8.33 USD |
| BofA Ticker / Exchange | ACT / NAS |
| Bloomberg / Reuters | ACT US / ACT.OQ |
| ROE (2024E) | 12.7% |
| ESGMeter™ | NLA |

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".

GSE: government-sponsored enterprises

CRT: credit risk transfer

W

iQprofileSM Enact Holdings

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Earned Premiums | 939 | 957 | 937 | 942 | 960 |
| Net Investment Income | 155 | 207 | 264 | 272 | 280 |
| Total Revenue | 1,095 | 1,154 | 1,201 | 1,214 | 1,240 |
| Total Cost of Benefits and Claims | 94 | (27) | (161) | (184) | (209) |
| S,G & A (Including Commissions) | (239) | (223) | (214) | (220) | (224) |
| Total Operating Expenses | (197) | (302) | (427) | (456) | (485) |
| Pre-Tax Operating Earnings | 898 | 852 | 773 | 758 | 754 |
| Income Tax Expense | (194) | (186) | (166) | (163) | (162) |
| Operating Earnings After Tax | 704 | 665 | 608 | 595 | 592 |
| Net Income (Reported) | 708 | 677 | 607 | 595 | 592 |
| Diluted Shares | 163 | 162 | 159 | 155 | 151 |
| Operating Earnings Per Share | 4.31 | 4.11 | 3.83 | 3.84 | 3.91 |
| Net Income (Reported) Per Share | 4.31 | 4.11 | 3.83 | 3.84 | 3.91 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Income Securities | NA | NA | NA | NA | NA |
| Total Cash and Investments | 5,402 | 5,902 | 6,265 | 6,585 | 6,892 |
| Total Assets | 5,709 | 6,190 | 6,553 | 6,873 | 7,180 |
| Reserves | NA | NA | NA | NA | NA |
| LT Debt | 743 | 745 | 745 | 745 | 745 |
| Total Liabilities | 1,608 | 1,558 | 1,615 | 1,635 | 1,642 |
| Total Equity | 4,101 | 4,632 | 4,939 | 5,238 | 5,539 |
| Total Equity (Ex FAS 115) | 4,101 | 4,632 | 4,939 | 5,238 | 5,539 |
| Book Value per Share (Reported) | 25.11 | 28.62 | 31.13 | 33.79 | 36.58 |
| 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% | 23.3% | 22.9% | 23.4% | 23.4% |
| Loss Ratio | -10.0% | 2.8% | 17.2% | 19.5% | 21.8% |
| Combined Ratio | 15.4% | 26.2% | 40.1% | 42.9% | 45.2% |
| Avg Assets / Avg Eq (Ex FAS 115) Ratio | 1.4x | 1.4x | 1.3x | 1.3x | 1.3x |

Growth Rates (YoY) (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------|-------|-------|-------|-------|-------|
| Total Earned Premium | -3.6% | 1.9% | -2.1% | 0.6% | 1.8% |
| Net Investment Income | 10.0% | 33.5% | 27.2% | 3.1% | 3.0% |
| Total Revenue | -2.0% | 5.4% | 4.1% | 1.1% | 2.1% |
| Operating Earnings per Share | 28.7% | -4.6% | -6.8% | 0.3% | 1.8% |
| Asset | -2.7% | 8.4% | 5.9% | 4.9% | 4.5% |
| Reported Book Value per Share | -0.3% | 14.0% | 8.8% | 8.5% | 8.3% |

Performance Metrics (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------------|--------|--------|-------|--------|--------|
| Operating ROE | 17.2% | 15.2% | 12.7% | 11.7% | 11.0% |
| Operating ROE (Ex FAS 115) | NA | NA | NA | NA | NA |
| Operating Return on Average Assets | 12.2% | 11.2% | 9.5% | 8.9% | 8.4% |
| Operating Margin | 64.3% | 57.7% | 50.6% | 49.0% | 47.8% |
| Long Term Debt to Cap Ratio (Ex FAS 115) | 15.3% | 13.9% | 13.1% | 12.5% | 11.9% |
| Net Income % Operating Income | 100.1% | 100.0% | 99.9% | 100.0% | 100.0% |
| Amtz of DAC % Pretax Profit bef Amtz of DAC | 0% | 0% | 0% | 0% | 0% |

Company Sector

Mortgage Finance

Company Description

ACT is a private mortgage insurance company who has served the housing market since 1981. Spun-off from Genworth Financial, ACT utilizes strong customer relationships to drive growth and has effectively grown market share in the last few years.

Investment Rationale

We rate ACT as Buy. Enact should deliver high-single-digit / low-double-digit book value growth from a combination of earnings growth and capital actions. Capital return has been robust despite Genworth ownership and management is executing well.

Stock Data

Average Daily Volume 313,682

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 1.08A | 0.94E |
| Q2 | 1.04A | 0.97E |
| Q3 | 1.02A | 0.97E |
| Q4 | 0.98A | 0.95E |

Key metrics – variance table inside

NIW (-): ACT reported an NIW of \$10.5B, down 31% y/y and 27% q/q, driven by a smaller private mortgage insurance market. 4Q NIW fell short of BofAe/cons expectations at \$12.3B/\$12.2B.

ACT guided for 2024 NIW market to be about the size of the 2023 market. Based on its January reinsurance transaction disclosure (21% of NIW, \$2.7B of ceded risk-in-force), we also estimate that ACT is planning for a ~\$51B in 2024 NIW, assuming risk-in-force as percent of insurance in-force is similar to 2023 (25.7%).

IIF (+): Primary insurance in-force was up to a record \$263.4B, up 5.9% y/y and 0.3% q/q, slightly above BofAe/cons at \$263.9B. Persistency came in at 86% vs 84% in 3Q and above our 84.4% estimate as mortgage rates have remained elevated. Persistency should remain elevated prospectively and ACT highlighted that only 4% of the portfolio had a mortgage rate that was 50bps above prevailing rates.

Total revenue (-): of \$296M was below BofAe/cons forecasts at \$302M/\$300M driven by lower premiums earned. The average premium rate was 36.5bps vs our 37.0bps estimate and weakened 0.8bps q/q. Positively, gross premiums have stabilized though ACT did note that the increase in reinsurance will continue to impact net premiums.

Losses incurred (+): were \$24.4M, coming in well below BofAe/cons at \$40.5/\$36.4M, but still up sequentially 37% y/y and 35% q/q as their book matures. The company released \$53M in prior period reserves due to favorable cure performance on the 2022 and earlier vintage. Current period loss provision of \$76.9M was above our \$70.5M estimate. The delinquency rate increased 13bps q/q to 2.1%.

Capital return: ACT repurchased \$18M worth of shares in 4Q and an additional \$4M shares in January. ACT also guided to 2024 capital return at a similar level as 2023 (\$300M) and noted it would be more buyback weighted.

Exhibit 1: Better than expected losses drove the EPS beat

Variance table

| Numbers in ('000s) | 4Q22 | 3Q23 | 4Q23e | 4Q23 | VAR | QoQ | YoY | Consensus |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|
| GAAP EPS | \$0.88 | \$1.02 | \$0.90 | \$0.98 | \$0.08 | -4.0% | 11.2% | \$0.93 |
| Revenues | | | | | | | | |
| Net premiums | \$232,737 | \$243,346 | \$243,443 | \$240,101 | (0.02) | -1.3% | 3.2% | \$242,656 |
| Net investment income | \$44,896 | \$54,952 | \$58,290 | \$56,161 | (0.01) | 2.2% | 25.1% | \$56,985 |
| Other income | (\$791) | \$737 | \$100 | (\$72) | (0.00) | -109.8% | -90.9% | \$602 |
| Total revenue | \$276,842 | \$299,035 | \$301,833 | \$296,190 | (0.03) | -1.0% | 7.0% | \$300,243 |
| Losses and expenses | | | | | | | | |
| Provisions for losses | \$18,097 | \$17,847 | \$40,530 | \$24,372 | 0.08 | 36.6% | 34.7% | \$36,443 |
| Operating expenses | \$62,702 | \$55,142 | \$60,861 | \$59,126 | 0.01 | 7.2% | -5.7% | \$58,481 |
| Interest expense | \$13,258 | \$12,941 | \$12,941 | \$12,948 | (0.00) | 0.1% | -2.3% | \$13,097 |
| Total losses and expenses | \$94,057 | \$85,930 | \$114,332 | \$96,446 | 0.09 | 12.2% | 2.5% | \$108,021 |
| Income before taxes | \$182,785 | \$213,105 | \$187,502 | \$199,744 | 0.06 | -6.3% | 9.3% | \$192,221 |
| Provision for income taxes | (\$38,979) | (\$48,910) | (\$43,034) | (\$42,436) | 0.00 | -13.2% | 8.9% | (\$42,103) |
| Net income | \$143,806 | \$164,195 | \$144,468 | \$157,308 | 0.08 | -4.2% | 9.4% | \$150,119 |
| Key metrics | | | | | | | | |
| New insurance written (\$M) | 15,145 | 14,391 | 12,260 | 10,453 | | -27.4% | -31.0% | 12,227 |
| Insurance-in-force (\$M) | 248,767 | 262,465 | 263,899 | 263,373 | | 0.3% | 5.9% | 263,916 |
| Average premium rate | 0.38% | 0.3738% | 0.37% | 0.365% | | -2.3% | -3.6% | 0.37% |
| Loss ratio | 7.8% | 7.3% | 16.6% | 10.2% | | 38.4% | 30.5% | 15.0% |
| Expense ratio | 26.9% | 22.7% | 25.0% | 24.6% | | 8.7% | -8.6% | 24.1% |
| Combined ratio | 34.7% | 30.0% | 41.6% | 34.8% | | 15.9% | 0.2% | 39.1% |
| Default rate | 2.08% | 1.96% | 2.03% | 2.09% | | 6.6% | 0.9% | 2.00% |

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

BofA GLOBAL RESEARCH



Price objective basis & risk

Enact Holdings (ACT)

Our \$34 PO is based on a 9x PE multiple to our 2024 EPS forecast. A 9x PE multiple is at the high-end of the historical range for mortgage insurers (6x-11x) and reflects the current favorable backdrop for housing credit, as well as, ACT's strong book value growth, and the more resilient business model.

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. Genworth's large concentrated ownership stake limits float and could 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 |
| | 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 |



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

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|--------------------------------|-------------|------------------|------------------|
| 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

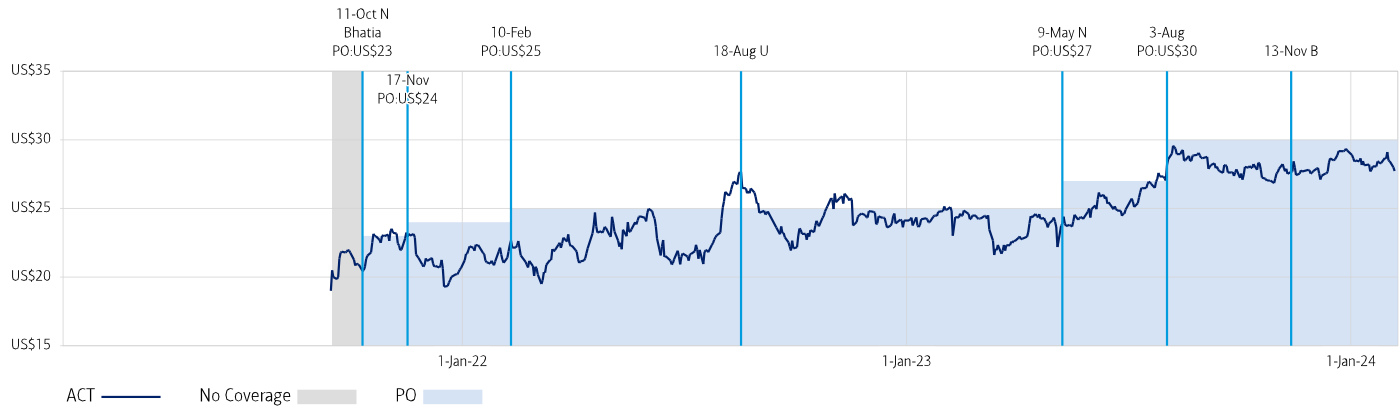
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Disclosures

Important Disclosures

Enact (ACT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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