

NMI Holdings

Solid results, credit drives EPS beat

Reiterate Rating: BUY | PO: 38.00 USD | Price: 30.29 USD

\$10M reserve release drives beat

National MI (NMIH) reported EPS of \$1.01 above BofAe/cons driven primarily by lower provision for losses. The \$9.8M prior period reserve release was above our forecast of \$5M which drove a \$0.04/share benefit to EPS. Premium revenue was mostly in-line with our forecast and OpEx was a touch higher than expected. Overall, 4Q was solid – book value (ex-AOCI) increased 17.4% y/y and 4.0% q/q to \$25.54, credit results remain strong, and share repurchases continued. Like peers, NMIH is benefiting from the favorable housing credit backdrop and while higher rates may temper NIW, it is benefitting persistency and IIF growth. Reiterate Buy.

Key metrics – variance table on page 3

NIW (+/-): of \$8.9B was below BofAe/cons at \$11.6B/\$10.3B. NIW declined 17% y/y and 21% q/q. While below expectations, we estimate NMIH had a market share of 15.1% in 4Q, up from 14.5% in the prior quarter, so the lower NIW was driven by market size.

IIF (+/-): at \$197B was in between BofAe/cons at \$198.6B/\$196.1B. Resilient persistency offset some of the weakness in NIW. The persistency rate was relatively flat at 86.1% from 86.2% in 3Q23.

Total revenue (+/-): of \$151M came in in-line with BofAe/cons at \$152M/\$151M driven by slightly higher premium revenue offset by slightly lower investment income. Net premium income was \$133M vs our consensus like \$132M estimate and the average premium rate was 0.27% flat q/q.

Losses (+): Provision for losses were \$8M below our consensus-like \$12M estimate. Current period reserves were \$17M in-line with our estimate and NMIH released \$10M of prior period reserves above our \$5M forecast.

OpEx (+/-): of \$30M came in a touch above BofAe/cons at \$28M/\$29M. This represented an expense ratio of 22.4% vs 21.3% in 3Q23.

Adjusting estimates and PO

We tweak our 2024/2025 EPS estimates to \$4.21/\$4.60 from \$4.23/\$4.58 previously as we account for 4Q results and an updated mortgage origination forecast. We also increase our PO to \$38 (\$34 prior) based on an 9x multiple (8x prior) to 2024e EPS to reflect the faster book value growth and the continuing favorable housing credit backdrop.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.39	3.84	4.21	4.60	4.76
GAAP EPS	3.41	3.84	4.21	4.60	4.76
EPS Change (YoY)	28.4%	13.3%	9.6%	9.3%	3.5%
Consensus EPS (Bloomberg)			4.04	4.50	4.69
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	8.9x	7.9x	7.2x	6.6x	6.4x

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14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	34.00	38.00

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Stock Data

Price	30.29 USD
Price Objective	38.00 USD
Date Established	14-Feb-2024
Investment Opinion	B-1-9
52-Week Range	20.61 USD -32.50 USD
Mrkt Val / Shares Out (mn)	2,456 USD / 81.1
Free Float	97.8%
Average Daily Value	14.44 USD
BofA Ticker / Exchange	NMIH / NAS
Bloomberg / Reuters	NMIH US / NMIH.OQ
ROE (2024E)	0%

IIF: Insurance in force

NIW: New insurance written

iQprofileSM NMI Holdings

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	475	511	572	625	663
Net Investment Income	47	67	79	86	89
Total Revenue	523	579	651	712	753
Total Cost of Benefits and Claims	4	(23)	(58)	(84)	(118)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(146)	(166)	(218)	(255)	(296)
Pre-Tax Operating Earnings	377	413	434	457	456
Income Tax Expense	(84)	(91)	(93)	(98)	(98)
Operating Earnings After Tax	291	322	340	359	358
Net Income (Reported)	291	322	340	359	358
Diluted Shares	86	84	81	78	75
Operating Earnings Per Share	3.39	3.84	4.21	4.60	4.76
Net Income (Reported) Per Share	3.41	3.84	4.21	4.60	4.76

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	2,099	2,371	2,646	2,956	3,294
Total Cash and Investments	2,144	2,468	2,743	3,053	3,390
Total Assets	2,512	2,937	3,212	3,522	3,860
Reserves	NA	NA	NA	NA	NA
LT Debt	NA	NA	NA	NA	NA
Total Liabilities	902	1,015	1,039	1,090	1,170
Total Equity	1,614	1,926	2,176	2,436	2,694
Total Equity (Ex FAS 115)	1,614	1,926	2,176	2,436	2,694
Book Value per Share (Reported)	19.31	23.81	27.90	32.40	37.17
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	-0.8%	4.4%	10.2%	13.5%	17.7%
Combined Ratio	-0.8%	4.4%	10.2%	13.5%	17.7%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	1.6x	1.5x	1.5x	1.5x	1.4x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	7.0%	7.5%	11.9%	9.4%	6.1%
Net Investment Income	20.8%	43.9%	16.9%	9.2%	2.8%
Total Revenue	7.9%	10.6%	12.5%	9.3%	5.7%
Operating Earnings per Share	28.4%	13.3%	9.6%	9.3%	3.5%
Asset	2.7%	16.9%	9.4%	9.6%	9.6%
Reported Book Value per Share	5.8%	23.3%	17.2%	16.1%	14.7%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	11.8%	11.8%	11.1%	10.7%	9.7%
Operating Margin	55.7%	55.6%	52.3%	50.4%	47.6%
Long Term Debt to Cap Ratio (Ex FAS 115)	NM	NM	NM	NM	NM
Net Income % Operating Income	100.5%	100.0%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Mortgage Finance

Company Description

NMIH is a private mortgage insurer headquartered in Emeryville, CA, founded in 2011 and issuing its first mortgage insurance policy in 2013, the company is the newest of the six private mortgage insurers in the United States.

Investment Rationale

We rate NMIH a Buy. National MI's expense leverage and best-in-class credit supported by the favorable housing credit backdrop and demographic tailwinds should drive solid double digit EPS and book value growth over the next few years.

Stock Data

Average Daily Volume 476,587

Quarterly Earnings Estimates

	2023	2024
Q1	0.88A	0.99E
Q2	0.95A	1.03E
Q3	1.00A	1.08E
Q4	1.01A	1.12E

Exhibit 1: A \$10M prior period reserve release drove the EPS beat

Variance table

Numbers in ('000s)	4Q22	3Q23	4Q23e	4Q23	VAR	QoQ	YoY	Consensus	QoQ	YoY
Adjusted EPS	\$0.86	\$1.00	\$0.97	\$1.01	\$0.04	0.5%	17.3%	\$0.96		
Revenues										
Net premiums	\$119,584	\$130,089	\$132,550	\$132,940	0.00	2.2%	11.2%	\$132,032	1.5%	10.4%
Net investment income	\$13,341	\$17,853	\$18,957	\$18,247	(0.01)	2.2%	36.8%	\$18,537	3.8%	39.0%
Other income	\$182	\$217	\$217	\$193	(0.00)	-11.1%	6.0%	\$259	19.5%	42.4%
Total revenue	\$133,107	\$148,159	\$151,724	\$151,380	(0.00)	2.2%	13.7%	\$150,863	1.8%	13.3%
Losses and expenses										
Provisions for losses	\$3,450	\$4,812	\$12,285	\$8,232	0.04	71.1%	138.6%	\$11,803	145.3%	242.1%
Operating expenses	\$26,711	\$27,749	\$28,274	\$29,716	(0.01)	7.1%	11.3%	\$28,721	3.5%	7.5%
Servicing expenses	\$131	\$239	\$239	\$185	0.00	-22.6%	41.2%	\$0	-100.0%	-100.0%
Interest expense	\$8,035	\$8,059	\$8,059	\$8,066				\$8,057	0.0%	0.3%
Total losses and expenses	\$38,327	\$40,859	\$48,857	\$46,199	0.03	13.1%	20.5%	\$48,581	18.9%	26.8%
Income before taxes	\$94,780	\$107,300	\$102,867	\$105,181	0.02	-2.0%	11.0%	\$102,282	-4.7%	7.9%
Provision for income taxes	\$21,840	\$23,345	\$22,380	\$21,768	(0.01)	-6.8%	-0.3%	\$22,577	-3.3%	3.4%
Net income	\$72,940	\$83,955	\$80,486	\$83,413	0.04	-0.6%	14.4%	\$79,705	-5.1%	9.3%
Adjusted net income	\$72,935	\$83,955	\$80,486	\$83,413				\$79,699		
Key metrics										
New insurance written (\$M)	10,719	11,334	11,620	8,927		-21.2%	-16.7%	10,339	-8.8%	-3.5%
Insurance-in-force (\$M)	183,968	194,781	198,610	197,029		1.2%	7.1%	198,091	1.7%	7.7%
Average premium rate	0.26%	0.27%	0.27%	0.27%		0.7%	3.0%	0.27%	-0.3%	2.1%
Loss ratio	2.9%	3.7%	9.3%	6.2%		67.4%	114.6%	8.9%	141.9%	210.1%
Expense ratio	22.3%	21.3%	21.3%	22.4%		4.8%	0.1%	21.7%	1.5%	-3.0%
Combined ratio	25.2%	25.0%	30.6%	28.5%		14.0%	13.2%	30.6%	22.3%	21.3%
Default rate	0.75%	0.75%	0.78%	0.81%		7.8%	8.1%	0.84%	12.0%	12.3%

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

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Price objective basis & risk

NMI Holdings (NMIH)

Our \$38 price objective is based on a 9x P/E multiple to our 2024 EPS forecast. A 9x multiple is at the higher end of the range for MI companies (6-11x) reflecting the favorable housing credit backdrop.

Downside risks to our price objective are an economic downturn, a weaker housing credit backdrop, increased competitive intensity, and regulatory changes.

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
	Marqeta	MQ	MQ US	Cassie Chan
	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
	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
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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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 & 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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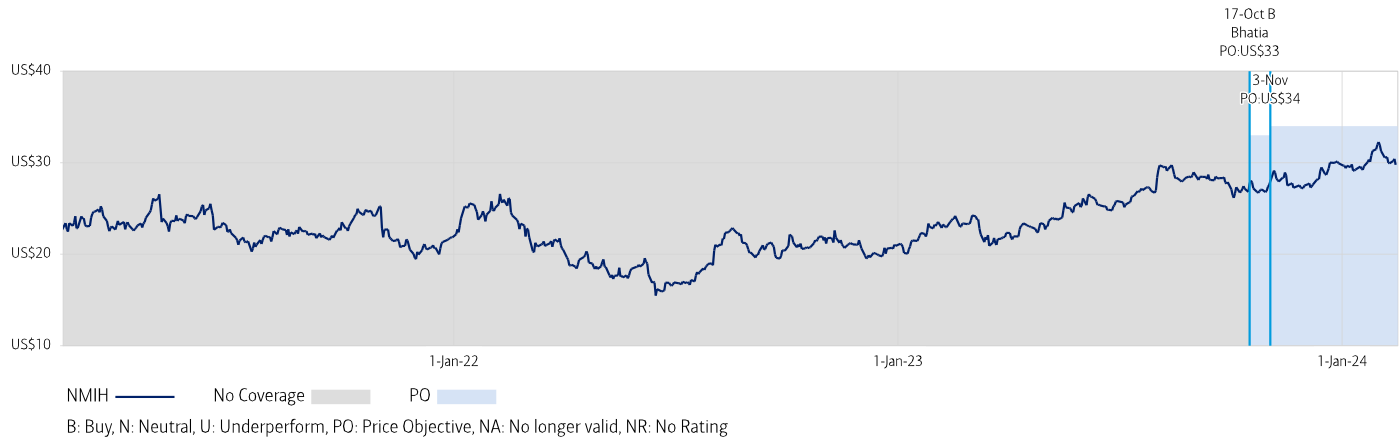
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Important Disclosures

NMI Holdings (NMIH) 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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