

Essent Group

Clean print and dividend raise is welcome in 4Q

Reiterate Rating: BUY | PO: 60.00 USD | Price: 51.87 USD

OpEx control and lower tax rate drive EPS beat

Buy-rated mortgage insurer Essent Group (ESNT) reported 4Q revs/adj. EPS of \$297M/\$1.64 vs BofAe/cons at \$301M/\$1.63 and \$287M/\$1.60, respectively. Relative to our forecast, 4Q was mostly in-line with lower taxes and better operating expenses offsetting realized investment losses (\$5M). Essent grew book value per share 6% q/q and 16% y/y. The company increased its quarterly dividend 12% to \$0.28/share and also repurchased \$15M shares in the quarter. Overall, we view the print as slightly positive. The housing credit backdrop remains favorable and we maintain a Buy rating.

Key metrics – variance table on page 3

NIW (-): 4Q NIW of \$8.8B was below BofAe/cons expectations of \$11.2B/\$11.7B. NIW fell 30% q/q, a faster decline than peers that have reported to-date which implies ESNT may have lost some market-share.

IIF (+/-): of \$239B was slightly below BofAe/cons at \$240B/\$241B driven primarily by lower NIW, but somewhat offset by higher persistency. Persistency increased 30bps q/q to 86.9%.

Total revenue (+/-): of \$297M was above cons at \$287M but a touch below our \$301M estimate. Relative to our forecast, the miss was due to realized investment losses of \$5M. Net premiums earned were in-line with our expectations and average net premium rate was 35bps, flat q/q. Gross premium rate was stable at 40bps, the fifth consecutive quarter of premium stability.

Losses (+/-): provision expenses were \$19.6M vs BofAe/cons at \$19.2M/\$18.2M. In-period losses were \$39M and releases were \$19M in-line with our \$39/\$20M estimate.

Capital return (+): Essent did \$15M of share repurchases in 4Q and increased its dividend to \$0.28 from \$0.25 previously. ESNT's Board has authorized a \$250M share repurchase plan expiring in 2025.

Adjusting estimates and PO

We adjust our 2024/2025 EPS estimates to \$6.63/\$7.37 from 6.79/\$7.33 previously as we account for 4Q results and company commentary. We increase our PO to \$60 based on an 9x multiple to our 2024E EPS (\$58 on 8.5x prior). We increase the multiple to reflect the favorable housing backdrop.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.72	6.50	6.63	7.37	7.96
EPS Change (YoY)	26.4%	-15.8%	2.0%	11.2%	8.0%
Consensus EPS (Bloomberg)			6.61	7.06	7.42
DPS	0.86	1.00	1.12	1.12	1.12
Valuation (Dec)					
P/E	6.7x	8.0x	7.8x	7.0x	6.5x
Dividend Yield	1.7%	1.9%	2.2%	2.2%	2.2%

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	58.00	60.00
2024E DPS	1.00	1.12

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Stock Data

Price	51.87 USD
Price Objective	60.00 USD
Date Established	9-Feb-2024
Investment Opinion	B-1-7
52-Week Range	36.53 USD -56.45 USD
Mrkt Val / Shares Out (mn)	5,831 USD / 112.4
Free Float	96.8%
Average Daily Value	23.41 USD
BofA Ticker / Exchange	ESNT / NYS
Bloomberg / Reuters	ESNT US / ESNT.N
ROE (2024E)	13.2%
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"](#).

IIF: Insurance in force

NIW: New insurance written

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iQprofileSM Essent Group

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	843	917	1,018	1,082	1,125
Net Investment Income	124	186	239	277	282
Total Revenue	1,176	1,110	1,284	1,393	1,466
Total Cost of Benefits and Claims	0	(32)	(136)	(149)	(158)
S,G & A (Including Commissions)	(172)	(225)	(284)	(300)	(310)
Total Operating Expenses	(187)	(287)	(452)	(481)	(499)
Pre-Tax Operating Earnings	988	823	832	912	967
Income Tax Expense	(157)	(127)	(129)	(142)	(151)
Operating Earnings After Tax	831	697	704	770	816
Net Income (Reported)	831	697	704	770	816
Diluted Shares	108	107	106	104	103
Operating Earnings Per Share	7.72	6.50	6.63	7.37	7.96
Net Income (Reported) Per Share	7.72	6.50	6.63	7.37	7.96

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	5,081	5,683	6,215	6,715	7,258
Total Assets	5,724	6,427	6,964	7,467	8,013
Reserves	NA	NA	NA	NA	NA
LT Debt	0	0	0	0	0
Total Liabilities	1,261	1,324	1,396	1,445	1,486
Total Equity	4,462	5,103	5,568	6,022	6,527
Total Equity (Ex FAS 115)	4,462	5,103	5,568	6,022	6,527
Book Value per Share (Reported)	41.44	47.87	53.39	59.96	67.57
Book Value per Share (Ex FAS 115)	44.78	50.50	53.39	59.96	67.57

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	20.4%	24.5%	27.9%	27.7%	27.5%
Loss Ratio	0%	3.4%	13.4%	13.8%	14.0%
Combined Ratio	20.4%	28.0%	41.3%	41.5%	41.5%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	1.3x	1.3x	1.3x	1.2x	1.2x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	-3.4%	8.8%	11.1%	6.2%	4.0%
Net Investment Income	40.2%	49.6%	28.4%	15.8%	1.8%
Total Revenue	14.3%	-5.6%	15.7%	8.4%	5.3%
Operating Earnings per Share	26.4%	-15.8%	2.0%	11.2%	8.0%
Asset	0%	12.3%	8.4%	7.2%	7.3%
Reported Book Value per Share	7.0%	15.5%	11.5%	12.3%	12.7%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	19.1%	14.6%	13.2%	13.3%	13.0%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	14.5%	11.5%	10.5%	10.7%	10.5%
Operating Margin	70.7%	62.8%	54.8%	55.3%	55.7%
Long Term Debt to Cap Ratio (Ex FAS 115)	0%	0%	0%	0%	0%
Net Income % Operating Income	100.0%	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

ESNT is a private mortgage insurance company that was formed during the financial crisis. It is the first private mortgage insurer to be approved by the GSEs since 1995. The company has increased its market share and customer base over the last few years. The company went public in October 2013 and completed a secondary offering in November 2014.

Investment Rationale

We rate ESNT a Buy. The strong housing credit backdrop along with ESNT's low cost operating platform should drive attractive near-term EPS growth. We also view ESNT's conservative balance sheet favorably.

Stock Data

Average Daily Volume

451,294

Quarterly Earnings Estimates

	2023	2024
Q1	1.59A	1.56E
Q2	1.61A	1.63E
Q3	1.66A	1.71E
Q4	1.64A	1.73E

Exhibit 1: OpEx control and a lower tax rate drove the EPS beat

Variance table

	Q4'22A	Q3'23A	Q4'23E	Q4'23A	VAR	QoQ	YoY	Consensus	QoQ	YoY
GAAP EPS	\$1.37	\$1.66	\$1.63	\$1.64	\$0.01	-1.3%	19.7%	\$1.60	-4.0%	16.3%
Adjusted EPS	\$1.37	\$1.66	\$1.63	\$1.64	\$0.01	-1.3%	19.7%	\$1.60	4.2%	16.3%
Revenues										
Net premiums written	200,726	240,574	239,643	238,187	(0.01)	-1.0%	18.7%	229,858		
Increase in unearned premiums	6,526	6,231	6,207	7,427	0.01	19.2%	13.8%	4,806		
Net premiums earned	207,252	246,805	245,850	245,614	(0.00)	-0.5%	18.5%	236,081	-4.3%	13.9%
Net investment income	37,796	47,072	52,368	50,581	(0.01)	7.5%	33.8%	48,431	2.9%	28.1%
Realized investment gains, net	(5,524)	(235)	-	(4,892)	(0.04)	1981.7%		-		
Other income	(1,888)	5,609	5,507	6,395	0.01	14.0%	(438.7%)	3,660	-34.7%	(293.9%)
Total revenues	230,037	296,108	300,581	297,277	(0.03)	0.4%	29.2%	287,965	-2.8%	25.2%
Losses and expenses										
Provision for losses and LAE	4,101	10,822	19,291	19,640	(0.00)	81.5%	378.9%	18,166	67.9%	343.0%
Other underwriting and operating expenses	46,895	67,989	68,301	66,723	0.01	-1.9%	42.3%	61,373	-9.7%	30.9%
Interest expense	6,045	7,854	7,857	7,953	(0.00)	1.3%	31.6%	7,689	-2.1%	27.2%
Total losses and expenses	57,041	86,665	95,449	94,316	0.01	8.8%	65.3%	87,353	0.8%	53.1%
Income before income taxes	172,996	209,443	205,133	202,961	(0.02)	-3.1%	17.3%	200,612	-4.2%	16.0%
Income tax expense (benefit)	25,630	31,484	30,836	27,594	0.03	-12.4%	7.7%	30,567	-2.9%	19.3%
Net income	147,366	177,959	174,297	175,367	0.01	-1.5%	19.0%	170,208	-4.4%	15.5%
Key Metrics										
New Insurance Written	13,011,432	12,505,823	11,209,421	8,769,160		-29.9%	(32.6%)	11,740,894	-6.1%	(9.8%)
Insurance-in-force (EOP)	227,062,055	238,661,612	240,026,241	239,078,262		0.2%	5.3%	241,505,993	1.2%	6.4%
Risk in force (EOP)	59,276,489	63,605,057	63,968,741	64,061,374		0.7%	8.1%	62,416,100		
Average Premium Rate (US Mortgage)	0.34%	0.35%	0.35%	0.35%		0.0%	2.9%	0.38%	0.0%	0.0%
Persistency (Reported)	82.1%	86.6%	0.0%	86.9%		0.3%	4.8%			
Loss Ratio	2.0%	4.4%	7.8%	8.0%		3.6%	6.0%	7.8%	3.4%	5.8%
Expense Ratio	22.6%	27.3%	27.6%	27.0%		-0.3%	4.4%	22.7%	-4.6%	0.1%
Combined Ratio	24.6%	31.7%	35.4%	35.0%		3.3%	10.4%	30.5%	-1.3%	5.8%
Default rate (% of loans in default)	1.66%	1.62%	1.76%	1.80%		0.2%	0.1%	1.83%	0.2%	0.2%
Tax rate	14.8%	15.0%	15.0%	13.6%		-1.4%	-1.2%			

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

BofA GLOBAL RESEARCH

Price objective basis & risk

Essent Group (ESNT)

Our \$60 PO is based on a 9x PE multiple to our 2024 EPS forecast. A 9x PE is at the high end of recent range for mortgage insurers (6-9x forward PE) and reflects ESNT's cost discipline, lower tax rate, strong capital position, and the favorable housing backdrop.

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
	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

Basic EBIT + Depreciation + Amortization

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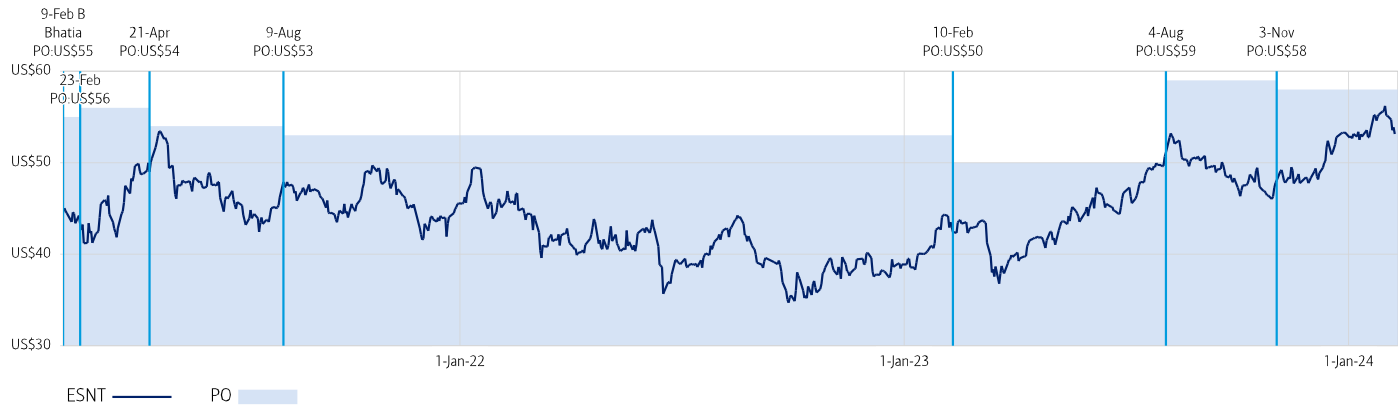
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Disclosures

Important Disclosures

Essent Group (ESNT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

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