

RenaissanceRe

Pay no premium for the hardest reinsurance market in over 15 years

Reiterate Rating: BUY | PO: 266.00 USD | Price: 177.77 USD

BVPS multiple has collapsed on while fundamentals intact

On February 9, 2023, RenRe shares closed at an all-time high of \$222 with its price-to-book multiple piercing 2x book for the first time in over 20 years. In the six months that have since passed, the company has reported two quarters adding \$17/sh of operating income, while the share price has fallen 20% off its highs. Shares now trade at 1.3x book, at essentially no premium to its long-term valuation despite materially improved operating fundamentals compared with the past decade. The stock appears to be trading at a discount to estimated two-year ahead BVPS, which has historically represented a floor outside of a breach during the depths of the Global Financials crisis.

Too much pessimism regarding the 1/1 renewal cycle

Recent underperformance of the stock appears to regard an insecurity regarding the strength of pricing into January 1 reinsurance renewals (and some diminished earnings power should Bermuda implement an income tax). We believe the market appears overly concerned about 1/1 pricing. There will likely be material new demand for protection next year. Further, high interest rates—a material factor in rising prices in 2022—are higher than they were a year ago and at year-end 2022. Should a material catastrophe event occur, we expect climate change fear will also be a factor in 2024 pricing.

The Validus transaction holds underappreciated upside

In May, RenRe announced its intention to acquire Validus—a key reinsurance competitor—from AIG. We believe this transaction consolidates RenRe's market power and presents an opportunity for material cost-efficiencies. Further, regardless of the outcome of the hurricane season, in 4Q23 AIG will present RenRe with \$4.5bn gross/\$1.765bn net of investable assets at fair value regardless of where interest rates stand. Given RenRe's tax requirements and accounting treatments, these assets could be immediately sold and redeployed into notably higher yielding fixed maturity instruments.

Significant upside to our Price Objective; remains Buy

Despite the perception of having performed well over the past year, that impression relies heavily on the 4Q22 breakout performance. YTD, RNR stock is actually down 3%. Yet risk exposures are likely down, while pricing is materially up, and we expect that the company is still capable of a 20% ROE even if Bermuda implements an income tax in 2025. Our PO is based on 80% of the large-cap P&C 2024 multiple, currently 9.7x, which is down slightly from 10.4x causing our PO to fall to \$266 from \$275 previously.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.71	7.31	31.85	36.25	37.30
GAAP EPS	(1.57)	(25.50)	32.52	29.21	35.30
EPS Change (YoY)	1,325.0%	327.5%	335.7%	13.8%	2.9%
Consensus EPS (Bloomberg)			26.76	29.61	35.45
DPS	1.44	1.48	1.52	1.56	1.60
Valuation (Dec)					
P/E	104.0x	24.3x	5.6x	4.9x	4.8x
GAAP P/E	NM	NM	5.5x	6.1x	5.0x
Dividend Yield	0.8%	0.8%	0.9%	0.9%	0.9%

21 August 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	275.00	266.00

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Stock Data

Price	177.77 USD
Price Objective	266.00 USD
Date Established	21-Aug-2023
Investment Opinion	B-1-7
52-Week Range	128.00 USD - 223.80 USD
Mkt Val (mn) / Shares Out (mn)	9,099 USD / 51.2
Average Daily Value (mn)	85.56 USD
BofA Ticker / Exchange	RNR / NYS
Bloomberg / Reuters	RNR US / RNR.N
ROE (2023E)	20.5%
Net Dbt to Eqty (Dec-2022A)	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](#)".

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Timestamp: 21 August 2023 05:00AM EDT

iQprofileSM RenaissanceRe

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	5,194	6,334	7,370	9,550	10,025
Net Investment Income	319	560	1,224	1,548	1,702
Total Revenue	5,278	5,060	8,795	11,260	11,739
Total Cost of Benefits and Claims	(3,876)	(4,339)	(4,032)	(5,708)	(6,039)
S,G & A (Including Commissions)	(1,256)	(1,615)	(1,904)	(2,369)	(2,483)
Total Operating Expenses	(5,392)	(6,279)	(6,336)	(8,484)	(8,901)
Pre-Tax Operating Earnings	(114)	(1,219)	2,459	2,776	2,838
Income Tax Expense	11	59	(35)	(1)	(123)
Operating Earnings After Tax	81	315	1,517	1,882	1,929
Net Income (Reported)	(40)	(1,061)	1,668	2,067	1,965
Diluted Shares	47	43	48	52	52
Operating Earnings Per Share	1.71	7.31	31.85	36.25	37.30
Net Income (Reported) Per Share	(1.57)	(25.50)	32.52	29.21	35.30

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	13,507	14,351	0	0	0
Total Cash and Investments	23,302	23,415	28,656	31,854	34,597
Total Assets	33,960	36,811	45,642	48,740	51,838
Reserves	NA	NA	NA	NA	NA
LT Debt	1,168	1,170	1,882	1,882	1,393
Total Liabilities	23,792	26,966	31,315	32,979	34,511
Total Equity	10,167	9,845	14,327	15,760	17,327
Total Equity (Ex FAS 115)	10,167	9,845	14,327	15,760	17,327
Book Value per Share (Reported)	132.17	104.65	140.91	167.19	198.50
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	24.2%	25.5%	25.8%	24.8%	24.8%
Loss Ratio	74.6%	68.5%	54.7%	59.8%	60.2%
Combined Ratio	98.8%	94.0%	80.6%	84.6%	85.0%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.1x	3.5x	3.4x	3.1x	3.0x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	31.4%	21.9%	16.4%	29.6%	5.0%
Net Investment Income	-9.8%	75.3%	118.6%	26.5%	10.0%
Total Revenue	2.0%	-4.1%	73.8%	28.0%	4.3%
Operating Earnings per Share	1,325.0%	327.5%	335.7%	13.8%	2.9%
Asset	10.2%	8.4%	24.0%	6.8%	6.4%
Reported Book Value per Share	-4.5%	-20.8%	34.6%	18.7%	18.7%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	1.4%	6.9%	20.5%	21.3%	18.5%
Operating ROE (Ex FAS 115)	1.4%	6.9%	20.4%	21.2%	18.5%
Operating Return on Average Assets	0.2%	0.9%	3.7%	4.0%	3.8%
Operating Margin	1.5%	6.2%	17.3%	16.7%	16.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	10.3%	10.6%	11.6%	10.7%	7.4%
Net Income % Operating Income	-91.0%	-348.6%	107.6%	108.0%	100.0%
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

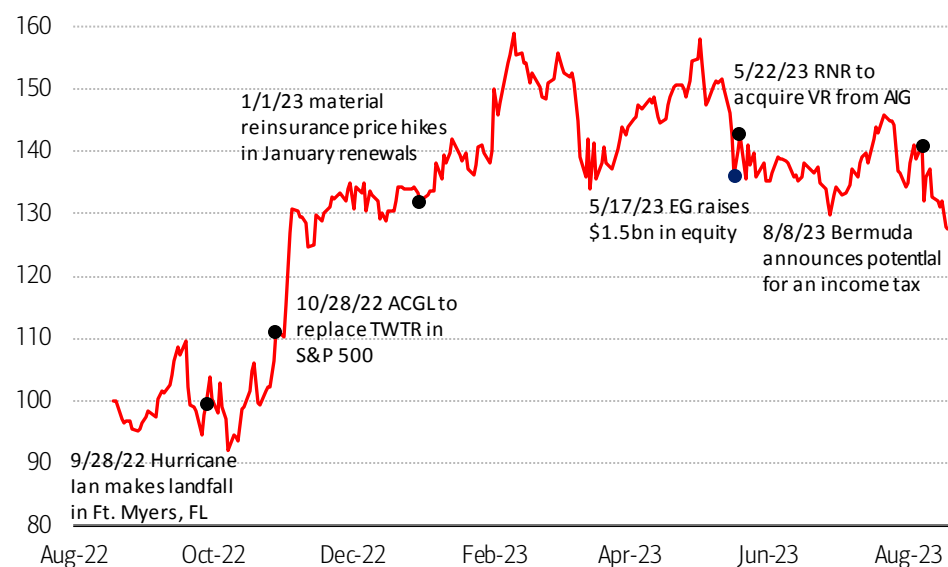
481,305

Quarterly Earnings Estimates

	2022	2023
Q1	3.50A	8.16A
Q2	5.51A	8.80A
Q3	-9.27A	5.34E
Q4	7.33A	8.96E

Exhibit 1: T12M indexed performance of RNR stock and major events in the past year's timeline

Despite significant pricing improvements year-over-year in 2023's 1/1, 4/1, 6/1 and 7/1 reinsurance renewal cycles, RenRe stock is essentially flattish in 2023.

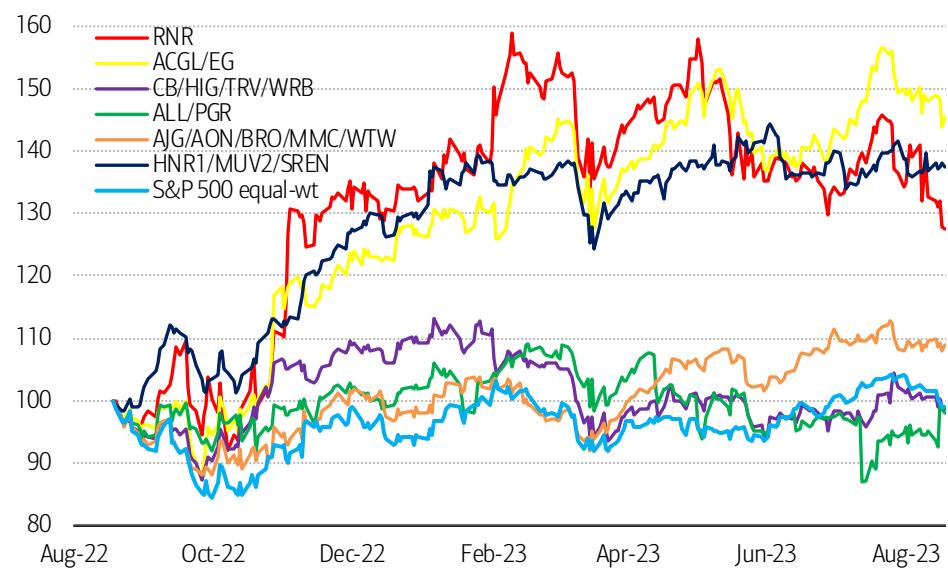


Source: Bloomberg

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Exhibit 2: T12M indexed performance of RNR stock compared against major peer groups

Broadly, it has been a sideways market for the insurance peer groups since 4Q22 with the S&P 500 reinsurers (ACGL/EG) and the European reinsurers (HNR1/MUV2/SREN) nonetheless outperforming RenRe.



Source: Bloomberg

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Exhibit 3: Price-to-book multiple history at RenRe

Shares of RenRe are currently trading at 1.3x book value, which suggests no premium to historical trading ranges, despite currently better market economics.

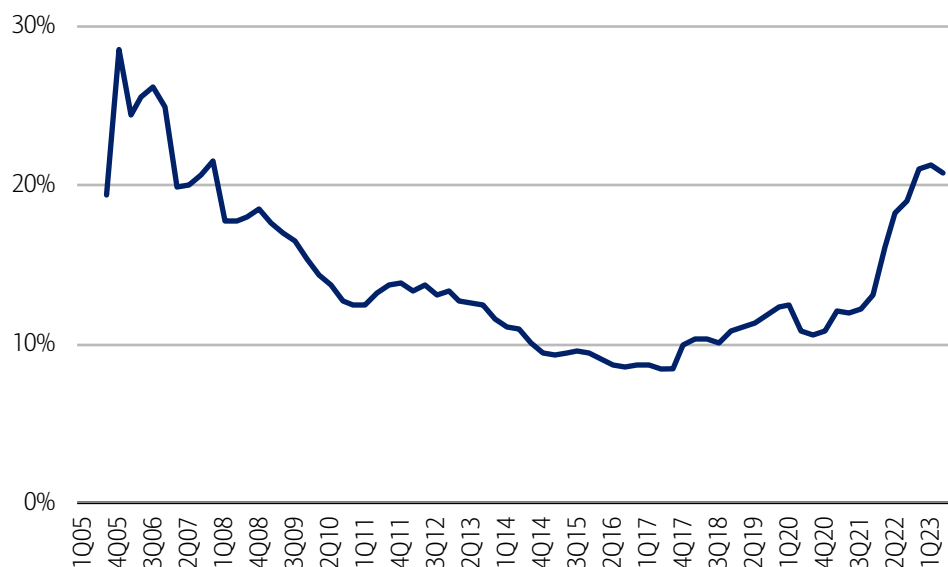


Source: Bloomberg and company filings

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Exhibit 4: Year-ahead ROE based on consensus EPS divided by beginning of year equity

Some may question why a premium price-to-book multiple is deserved. We would note that companies with higher returns on capital deserve higher valuations. Consensus forecasts a 20%+ ROE in 2024 compare with a 10% ROE in 2018, yet today's P/B multiple is essentially the same as 2018's. We believe the current consensus forecast underestimates RenRe's earnings power, and our high-on-the-Street 2024 EPS estimate of \$36.25 is 22% above consensus of \$29.61

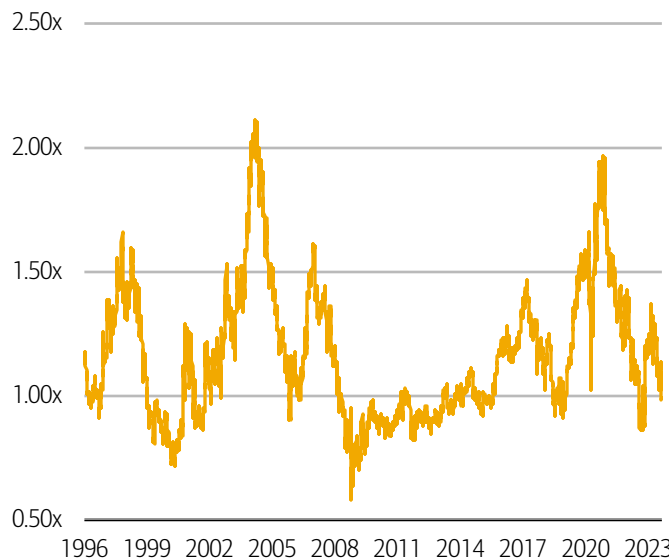


Source: Bloomberg

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Exhibit 5: Price-to-two-year-ahead tangible book multiple history at RenRe

It would appear that RenRe has recently dropped below tangible book value two year out. This has tended to mark a floor as to where the stock bottomed in past cycles. Because of the currently high ROE, the company is likely to add a lot to book value in the two years to come. A peak in 2005 is due to a depressed book value following Hurricanes Katrina, Rita and Wilma. A peak in 2022 is due to an investment portfolio depressed by mark-to-market losses as interest rates surged.



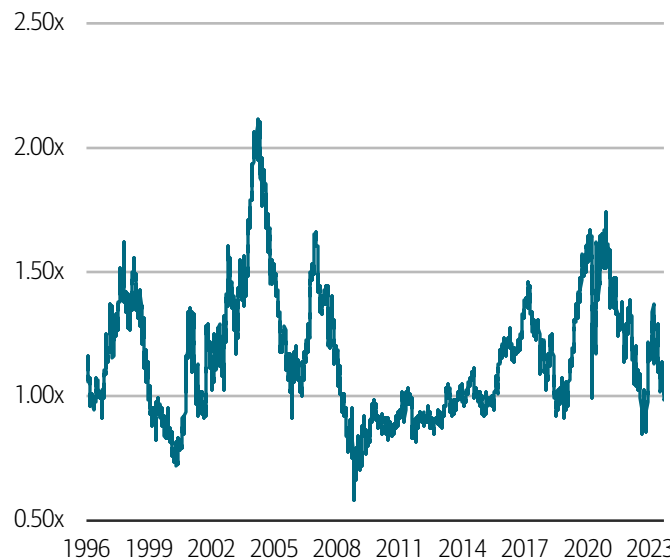
From September 2021 to present, year-ahead tangible book value is forecasted based on our model's estimates for future earnings whereas the prior periods are based upon where tangible book value actually stood one year later. Additionally, we have decreased tangible book value in May 2023 to reflect the increase in goodwill stemming from the Validus acquisition as if it closed upon announcement of the deal instead of an expected November close.

Source: Bloomberg and company filings

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Exhibit 6: Price-to-two-year-ahead tangible book (excluding unrealized investment gains/losses) multiple history at RenRe

While RenRe manages its business to total return, many investors assume unrealized investment losses will amortize to zero upon maturing. RenRe takes a more active trading stance, which is why we expect a step-up in net investment income upon the close of the Validus transaction. We have aimed to correct for the 2022 extreme valuation created by the temporary unrealized investment losses. A slightly different time series, valuation below 1x still seems to typically act as a floor.



From September 2021 to present, year-ahead tangible book value is forecasted based on our model's estimates for future earnings whereas the prior periods are based upon where tangible book value actually stood one year later. Additionally, we have decreased tangible book value in May 2023 to reflect the increase in goodwill stemming from the Validus acquisition as if it closed upon announcement of the deal instead of an expected November close.

Source: Bloomberg and company filings

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Price objective basis & risk

RenaissanceRe (RNR)

Our \$266 PO is based on 80% of the large cap P&C year-ahead P/E multiple (9.7x) on our 2024E EPS forecast. While there is no impact from a Bermudian income tax in 2024, we are also reducing the multiple by the impact we expect such a tax to have in 2025. We believe that RenaissanceRe, because it is uniquely constrained to reinsurance markets, may be disadvantaged from a valuation standpoint. Once it traded at a premium, but currently 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
BUY				
	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
	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
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	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
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Axis Capital	AXS	AXS US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Lemonade, Inc.	LMND	LMND US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

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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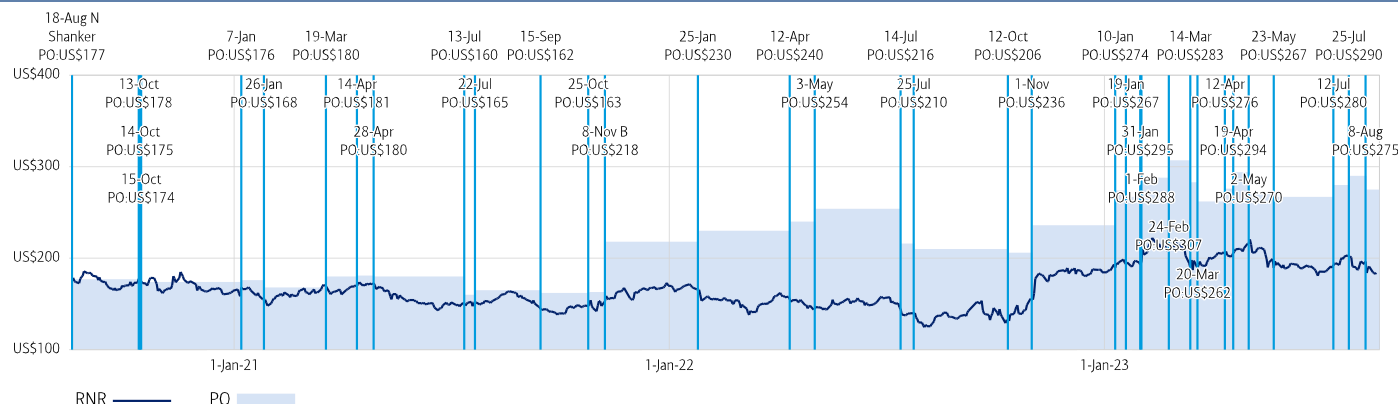
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Disclosures

Important Disclosures

RenaissanceRe (RNR) 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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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