

Kinsale

2Q22: Strong Results, Favorable E&S Market a Tailwind

KNSL's premium growth, investment income, and underwriting margins were all better than expected in 2Q22, pointing to the longevity of the hard market as well as the benefit of higher interest rates. We consider KNSL a high quality E&S franchise and expect it to perform well through the underwriting cycle. Also, we think KNSL's financial results are likely to exhibit positive momentum over the medium term as it unwinds excess reserves on its balance sheet, writes business at favorable prices/terms, and benefits from higher interest rates. Still, we remain Neutral on the stock given its valuation as well as the risk of multiple compression as the P&C pricing cycle continues to moderate (albeit more gradually than we had initially expected). Following the quarter, we are raising our EPS estimates and price target.

- EPS upside.** KNSL reported 2Q22 operating EPS of \$1.92, well above our \$1.65 estimate and consensus of \$1.62. Adjusting for the low tax rate this quarter (16.5% vs. a more typical level of ~18% because of stock comp,) KNSL's EPS would have been \$1.89, with most of the upside versus our model driven by underwriting margins (CR 76.8% vs. 80.0%E) and to a lesser extent, investment income. Catastrophe losses (none vs. 1.0%E) and reserve releases (-5.0% vs. -3.5%E) were more favorable than our assumptions. On a core basis, underwriting margins were also better, with a lower expense ratio (20.5% vs. 21.5%E) more than offsetting a modestly higher AY loss ratio (61.3% vs. 61.0%E). Net written premiums grew +44.5% from 2Q21, above our +32.1% assumption. KNSL's results have exceeded expectations for six consecutive quarters and we believe there could be upside in our estimates from a lower combined ratio, higher investment income, and premium growth.
- The operating environment remains favorable for KNSL, pointing to ongoing momentum in its results.** (1) Consistent with past quarters, the company attributed strong premium growth to higher submission activity from brokers and more favorable pricing as captured in its disclosure on average premiums per policy (\$14,200 in 2Q22 vs. \$12,300 in 2Q21, ~13% growth). (2) Once again, reserve releases this quarter were mostly from accident years 2020 and 2021, which continue to develop more favorably than KNSL's initial loss picks. (3) The increase in KNSL's investment income appears to be mostly driven by business growth. Like other insurers, KNSL has the option of boosting investment income by re-positioning into higher yielding assets. (4) Expense leverage is working in KNSL's favor, with recent earned premium growth (~40%) exceeding operating expense growth of ~30%. (5) KNSL has secured debt financing to fund further growth (\$125 million note with \$150 million upsize option, undrawn \$100 million credit facility with option to upsize to \$130 million).

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 11 for analyst certification and important disclosures.

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Neutral

KNSL, KNSL US

Price (28 Jul 22): \$236.18

▲ Price Target (Dec-23): \$230.00
Prior (Dec-22): \$220.00

Insurance - Life & Nonlife

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J.P. Morgan Securities LLC

Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 22E (\$)	6.75	7.08
Adj. EPS - 23E (\$)	7.87	8.16

Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)	2021A	2022E	2023E
Q1	1.11	1.63A	
Q2	1.28	1.92A	
Q3	1.59	1.63	
Q4	1.76	1.91	
FY	5.74	7.08	8.16

Style Exposure

Quant Factors	Current		Hist %Rank (1=Top)		
	%Rank	6M	1Y	3Y	5Y
Value	98	96	97	99	97
Growth	6	5	7	7	1
Momentum	5	26	80	2	22
Quality	9	10	9	12	15
Low Vol	78	76	38	67	77
ESGQ	77	73	73	86	-

2Q22 Results

EPS: \$1.92A vs. \$1.65E

NPW growth: +44.5% vs +32.1%E

Comb. ratio: 76.8% vs. 80.0%E

Positives

Overall margins
Premium growth
Investment income

Negatives

AY loss ratio

Price Performance



Company Data

Shares O/S (mn)	23
52-week range (\$)	245.38-157.81
Market cap (\$ mn)	5,409.41
Exchange rate	1.00
Free float(%)	94.4%
3M - Avg daily vol (mn)	0.10
3M - Avg daily val (\$ mn)	21.6
Volatility (90 Day)	37
Index	RUSSELL 2000
BBG BUY HOLD SELL	3 3 0

Key Metrics (FYE Dec)

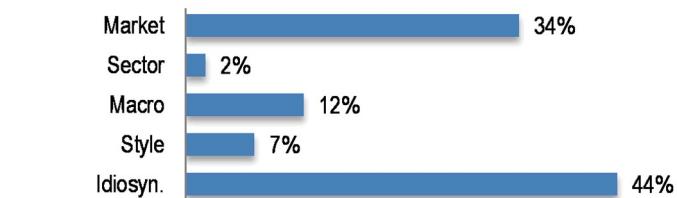
\$ in millions	FY21A	FY22E	FY23E	FY24E
Financial Estimates				
NEP (Premium)	583	795	1,025	1,236
Underwriting income	134	164	195	232
Net investment income	57	12	48	53
Operating income	190	177	243	285
Adj. PBT	189	173	235	277
Adj. net income	132	165	191	225
Adj. EPS	5.74	7.08	8.16	9.58
BBG EPS	5.36	6.78	7.93	9.08
DPS	0.44	0.52	0.60	0.68
Investments	697	708	885	1,094
BVPS	30.63	31.02	38.58	47.45
NAVPS	-	-	-	-
Margins and Growth				
Adj. EPS growth	81.4%	23.2%	15.4%	17.3%
Ratios				
Adj. tax rate	19.1%	18.4%	19.0%	19.0%
Loss ratio	55.7%	58.6%	60.5%	60.7%
Combined ratio	77.1%	79.3%	81.0%	81.2%
Invest inc. % of Investments	-	-	-	-
Regulatory solvency ratio	-	-	-	-
Leverage (Debt/Debt+Equity)	-	-	-	-
ROE	20.8%	23.3%	23.9%	22.6%
Valuation				
Dividend yield	0.2%	0.2%	0.3%	0.3%
Adj. P/E	41.1	33.4	28.9	24.7
P/BV	7.7	7.6	6.1	5.0

Summary Investment Thesis and Valuation

Investment Thesis

KNSL is the only publicly traded P&C insurer that operates exclusively in the E&S insurance market with a focus on small commercial accounts. Our long-term outlook for KNSL is upbeat given its large addressable market, superior technology platform, and low cost base, which we view as a sustainable competitive advantage. Still, the stock's valuation seems full and we are concerned about the risk of multiple compression as the P&C pricing cycle continues to turn.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.74	0.61
Sect: Financials	-0.30	-0.28
Ind: Insurance	-0.18	-0.22
Macro:		
Economic Surprise	0.39	0.41
US 10yr yield	-0.25	-0.27
Credit Spread	0.22	0.21
Quant Styles:		
Quality	0.36	0.31
LowVol	0.33	0.30
Size	0.21	0.22

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Investment Thesis

Please see Page 5 for tables summarizing 2Q22 results.

KNSL will hold its earnings conference call at 9:00 AM Eastern on July 29, 2022.

The dial-in number for the call is 888-660-6493; code: 3573726.

The call replay will be available on <https://ir.kinsalecapitalgroup.com>.

We affirm our Neutral rating. In our view, KNSL's premium volumes and margins will continue to benefit from the firm E&S market. Also, we think that Kinsale's low cost operating model is a sustainable competitive advantage across the pricing cycle, especially against higher cost competitors like Lloyd's writers. On the other hand, the stock's valuation seems full compared to commercial peers and specialist names even after accounting for KNSL's growth potential and above-average margins. Also, although favorable P&C market conditions have persisted longer than we had initially anticipated and will have positive implications for Kinsale's balance sheet reserves, we believe that the eventual turn in the P&C pricing cycle presents downside risk to its above-average multiple.

Well-Positioned to Capitalize on Favorable P&C Market

We expect the overall E&S market, where KNSL operates exclusively, to see strong but moderating new business flows and price hikes over time, partly due to more underwriters focusing on growth and greater appetite from admitted markets. Still, we think KNSL can grow premiums at a healthy pace because of its relatively small base as well as the fragmented nature of the pricing cycle whereby certain lines (property, marine) are only beginning to benefit from harder prices despite a slowdown in other lines and/or the broader market. With respect to profitability, we expect the combination of price hikes – historical and prospective – and conservative reserving to support healthy margins at KNSL over the medium term.

Low Expenses a Durable Competitive Advantage

KNSL operates with a proprietary and fully integrated technology platform that it built from the ground up, in contrast to many of its peers that use unwieldy hybrid systems consisting of legacy platforms and newer technologies. The net result has been an operating model that has the capacity to take on significant business volumes without sacrificing customer responsiveness, underwriting quality, and expense efficiency. With this model, our view is that KNSL will outperform higher cost competitors (especially Lloyd's which is more than 20% of the E&S market) through the pricing cycle. During softer markets, KNSL has the ability to grow premiums as others pull back while maintaining above-average profitability. In hard markets, Kinsale can operate as a price taker and generate an even larger excess return.

Eventual Turn in Pricing Cycle is a Risk

The P&C industry is well into the current hard market and we expect price hikes to continue moderating modestly through 2022 and 2023 as re/insurers re-position themselves for growth and clients push back on rate-on-rate price hikes. This seems to be reflected in multiples for commercial P&C names, which are essentially flat versus pre-COVID levels, but less so for (most) specialist names like KNSL, which are trading at a premium compared to historical levels. Given this, we see multiple compression as a risk as pricing/volume swings tend to be more volatile in E&S given its function as a safety valve for the P&C industry. While we believe that KNSL will thrive even if prices soften and that some portion of recent market share gains by the E&S industry are permanent, our view is that a reasonable valuation analysis will have to look several years out because of KNSL's above-average growth profile (our reference year is 2024), and would therefore have to account for how conditions in the P&C market are likely to be at that future time.

2Q22 Summary Results

The following tables and charts summarize KNSL's 2Q22 results as well as its operating performance over the past several years:

Table 1: 2Q22 Earnings: Actual versus Expected

\$ in millions, %, and bps

	JPM 2Q22E	Actual 2Q22	Actual v. Expected
Underwriting Results			
Net premiums written (\$)	221.6	242.3	9.4%
Net premiums earned (\$)	190.8	190.2	-0.3%
Loss ratio			
AY loss ratio	58.5%	56.3%	-221 bps
Catastrophe losses	61.0%	61.3%	28 bps
Unfavorable (favorable) PYD	1.0%	0.0%	-99 bps
Expense ratio	-3.5%	-5.0%	-150 bps
Combined ratio			
AY combined ratio ex. cats	21.5%	20.5%	-101 bps
Combined ratio	80.0%	76.8%	-322 bps
AY combined ratio ex. cats			
Operating EPS	82.5%	81.8%	-72 bps
Summary Income Statement			
Underwriting income	38.2	44.1	\$0.26
Net investment income	9.5	10.6	\$0.05
Taxes and other	(9.3)	(10.3)	(\$0.04)
Operating income	38.4	44.4	\$0.26
Average diluted shares	23.1	23.1	\$0.00
Operating EPS	\$1.66	\$1.92	\$0.26

Source: Company reports and J.P. Morgan estimates.

Table 2: Historical Operating Performance

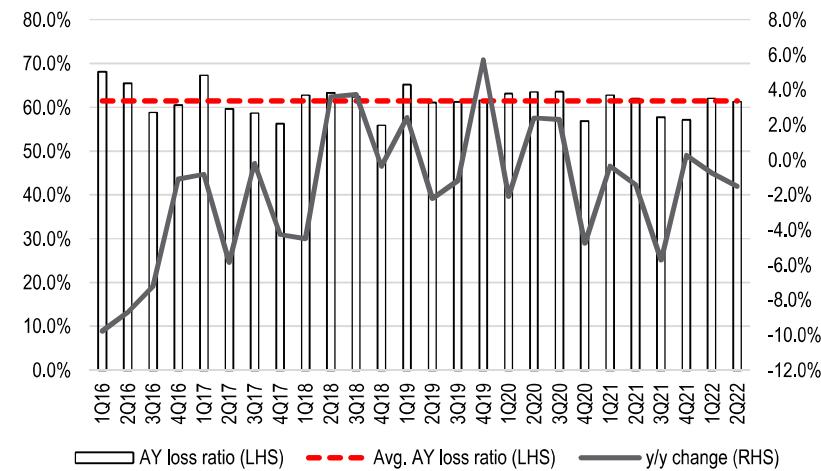
\$ in millions and %

	2016	2017	2018	2019	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22
Premium Trends												
Gross written premiums	188.5	223.2	275.5	389.7	552.8	168.9	194.1	197.6	203.8	764.4	245.5	277.0
% ceded	11.3%	15.1%	14.5%	12.2%	13.5%	14.6%	13.6%	13.6%	12.9%	13.6%	11.8%	12.5%
Net written premiums	167.3	189.5	235.6	342.1	478.2	144.3	167.8	170.7	177.5	660.2	216.5	242.3
% growth y/y	99.1%	13.3%	24.4%	45.2%	39.8%	33.5%	42.6%	39.6%	36.2%	38.1%	50.0%	44.5%
Net earned premiums	133.8	176.1	212.7	283.0	412.8	123.0	137.7	156.9	165.3	582.9	178.6	190.2
% growth y/y	80.0%	31.6%	20.8%	33.0%	45.9%	37.1%	42.0%	44.9%	40.3%	41.2%	45.1%	38.1%
Underwriting Results												
AY loss ratio	63.0%	60.2%	60.9%	62.2%	61.5%	62.8%	62.0%	57.8%	57.1%	59.7%	62.0%	61.3%
Catastrophe losses	0.0%	5.0%	2.6%	1.1%	5.6%	0.1%	2.1%	3.7%	-0.1%	1.5%	0.0%	0.0%
Unfavorable (favorable) PYD	-10.0%	-6.4%	-3.3%	-3.3%	-3.2%	-5.7%	-6.6%	-5.9%	-4.0%	-5.5%	-4.7%	-5.0%
Loss ratio	53.0%	58.9%	60.2%	59.9%	63.9%	57.1%	57.5%	55.7%	53.1%	55.7%	57.4%	56.3%
Expense ratio	21.3%	25.1%	25.1%	24.8%	22.8%	22.9%	21.7%	20.1%	21.4%	21.4%	21.6%	20.5%
Combined ratio	74.4%	84.0%	85.3%	84.7%	86.8%	80.0%	79.2%	75.7%	74.5%	77.1%	79.0%	76.8%
AY combined ratio ex. cats	84.4%	85.3%	86.0%	87.0%	84.4%	85.7%	83.7%	77.9%	78.6%	81.1%	83.6%	81.8%
Investment Results												
Net investment income	7.5	10.6	15.7	20.1	26.1	6.9	7.4	8.1	8.6	31.0	9.1	10.6
% growth y/y	32.7%	41.2%	48.4%	28.3%	29.7%	16.5%	11.8%	15.5%	32.1%	18.9%	30.9%	42.6%
Duration	3.7	3.9	3.9	4.3	4.3	4.3	4.3	4.4	4.3	4.3	4.6	4.2
Gross yield ex. cash (YTD)	2.2%	2.4%	3.0%	3.1%	2.9%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.6%
Cash and invested assets	480.3	561.1	643.1	908.2	1,300.0	1,400.0	1,500.0	1,600.0	1,700.0	1,700.0	1,700.0	1,800.0
% growth y/y	16.8%	14.6%	41.2%	43.1%	46.6%	36.4%	33.3%	30.8%	30.8%	21.4%	21.4%	20.0%

Source: Company reports and J.P. Morgan estimates.

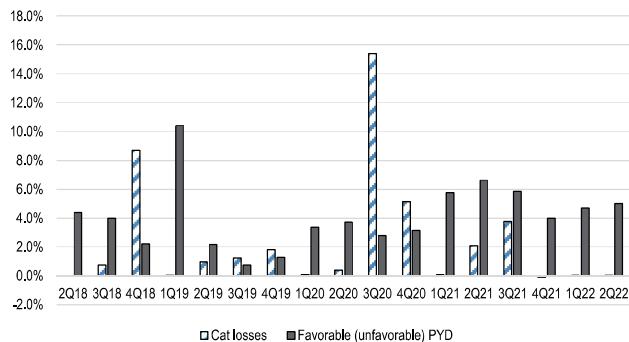
Figure 1: Historical AY Loss Ratio Trends

% of net earned premiums



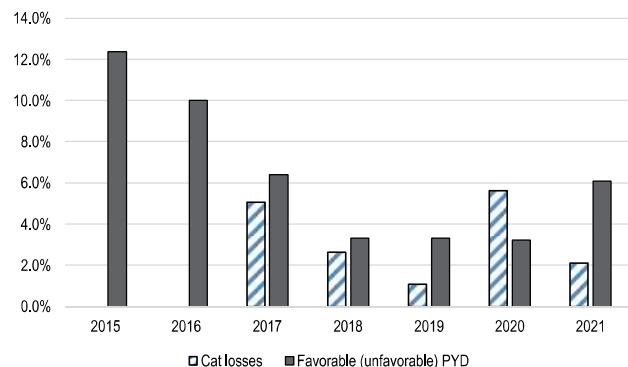
Source: Company reports and J.P. Morgan estimates.

Figure 2: Historical Catastrophe and PYD Trends (Quarterly)
 % of net earned premiums



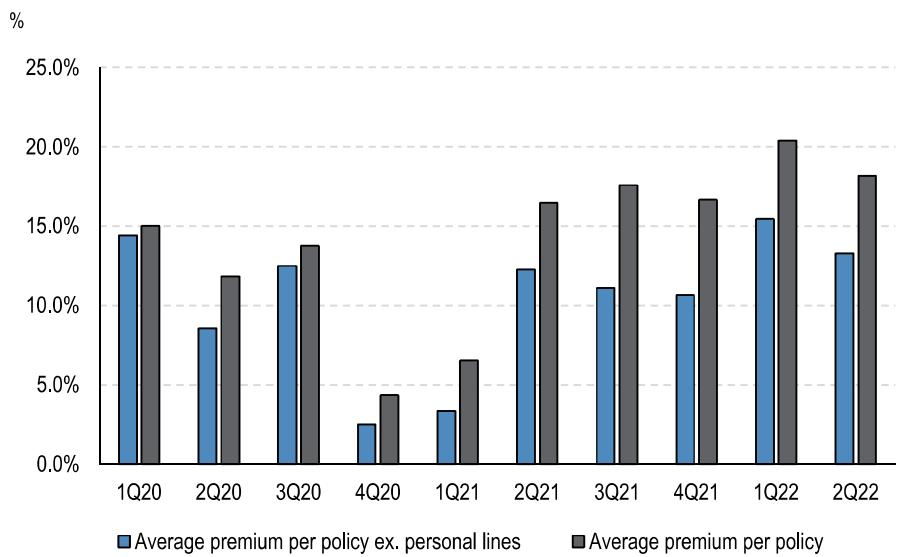
Source: Company reports and J.P. Morgan estimates.

Figure 3: Historical Catastrophe and PYD Trends (Annual)
 % of net earned premiums



Source: Company reports and J.P. Morgan estimates.

Figure 4: Year-on-Year % Change in Written Premiums per Policy



Source: Company reports and J.P. Morgan estimates.

Table 3: KNSL's Historical New Business Metrics

	2015	2016	2017	2018	2019	2020	2021
Submissions	148,691	186,377	226,000	288,000	380,000	461,000	520,000
Quotes	47,204	80,933	116,000	167,000	234,000	300,000	347,000
Bound policies	8,533	10,929	14,000	18,000	25,000	31,000	36,000
Quotes / submissions	31.7%	43.4%	51.3%	58.0%	61.6%	65.1%	66.7%
Bound / quotes	18.1%	13.5%	12.1%	10.8%	10.7%	10.3%	10.4%
Bound / submissions	5.7%	5.9%	6.2%	6.3%	6.6%	6.7%	6.9%
Growth Rate							
Submissions		25%	21%	27%	32%	21%	13%
Quotes		71%	43%	44%	40%	28%	16%
Bound		28%	28%	29%	39%	24%	16%

Source: Company reports and J.P. Morgan estimates.

Raising Estimates

We are increasing our EPS estimates (3Q22 from \$1.58 to \$1.63, 2022 from \$6.75 to \$7.08, 2023 from \$7.87 to \$8.16) to reflect modest revisions in our assumptions for premium growth, margins/combined ratio, and investment income.

Investment Thesis, Valuation and Risks

Kinsale Capital (*Neutral; Price Target: \$230.00*)

Investment Thesis

We maintain our Neutral rating. KNSL is the only publicly traded P&C insurer that operates exclusively in the E&S insurance market with a focus on small commercial accounts. Our long-term outlook for KNSL is positive given its large addressable market, superior technology platform, and low cost base, which we view as a sustainable competitive advantage. Still, the stock's valuation seems full at current levels and we are concerned about the risk of multiple compression as the P&C pricing cycle continues to moderate.

Valuation

We are establishing our December 2023 price target of \$230, compared to our prior December 2022 price target of \$220. Our December 2023 target assumes a 3.8x P/BV target multiple on 2025 book value and a 20x P/E target on 2025 EPS. These target multiples are well above peers', which we believe is supported by KNSL's above-average premium growth (long-term low-to-mid teens growth versus mid- to high-single-digit growth for most large commercial peers) and margin profile (80-85% combined ratio versus 85- 90% for peers). KNSL trades at 8.5x book value, well above the specialty peer average (ex. PLMR) of 1.8x and commercial peers at 1.3x.

Risks to Rating and Price Target

We believe the main upside risks to our rating and price target are:

- **The hard P&C market lasts longer than expected.** Kinsale is seeing higher prices and greater submission flow because of dislocation in the P&C market. If current conditions persist longer than we assume, there could be upside to our forecasts and investor sentiment would likely improve.
- **Premium growth surpasses already elevated expectations.** In our view, part of KNSL's premium valuation is attributable to its above-average growth. We would expect KNSL's valuation multiple to expand if it consistently exceeds growth expectations in the next few years.
- **Margin improvement is greater than assumed.** The combination of earned pricing exceeding loss cost trends and management's conservative reserving suggests margin improvement in the next few years. If KNSL's margin improvement tracks higher than expectations, there could be upside to forecasts.

We believe the main downside risks to our rating and price target are:

- **Increased competition and/or push back from insurance clients dampens the pricing cycle.** The insurance industry is well into the hard market and clients are beginning to push back more strongly on price hikes while more insurers are deploying capital and positioning themselves for growth. If the cycle begins to turn, we believe there is a risk of multiple compression for insurers that have seen an outsized benefit from higher prices.

- **Adverse loss trends or social inflation re-emerge in casualty reserves.** Although unlikely to be a material risk for KNSL given its specific exposures and low limits, the re-opening of the court system could drive a surge in pent-up liability claims.
- **Unfavorable loss experience emerges from new lines of business.** Kinsale has a strong underwriting track record and it is entering new lines of business in a very strong part of the cycle. Still, given the long-tail nature of casualty coverage, the impact of badly underwritten risks is likely to persist.

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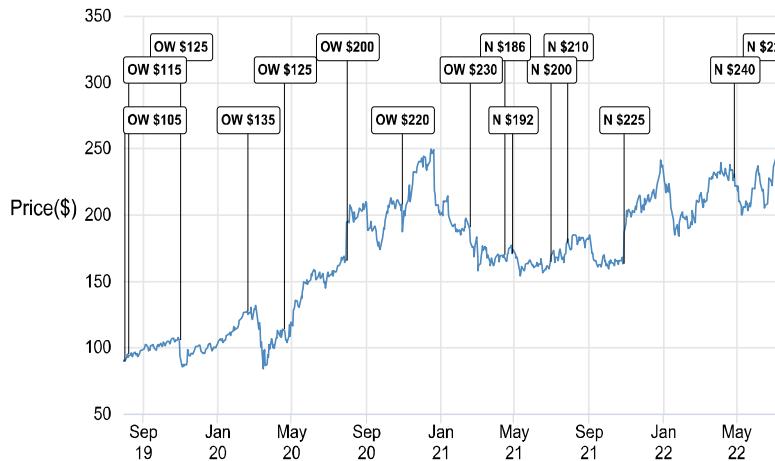
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Kinsale (KNSL, KNSL US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
02-Aug-19	OW	89.98	105
08-Aug-19	OW	95.46	115
01-Nov-19	OW	105.72	125
20-Feb-20	OW	127.74	135
20-Apr-20	OW	114.01	125
31-Jul-20	OW	165.91	200
30-Oct-20	OW	208.26	220
18-Feb-21	OW	190.72	230
16-Apr-21	N	170.28	186
29-Apr-21	N	170.98	192
01-Jul-21	N	164.77	200
29-Jul-21	N	179.44	210
28-Oct-21	N	163.26	225
28-Apr-22	N	227.90	240
06-Jul-22	N	243.47	220

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 22, 2016. All share prices are as of market close on the previous business day.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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