J.P.Morgan

Kinsale

Post 4Q24 Follow Up: Reducing EPS and Price Target; Neutral

Neutral

KNSL, KNSL US
Price (21 Feb 25):$428.53

▼**Price Target (Dec-25):$402.00**
Prior (Dec-25):$412.00

We are reducing our EPS estimates and price target for KNSL, from $412 to $402. Our Neutral rating is unchanged. Kinsale reported 4Q24 earnings on 2/13/2025 and hosted a conference call the following day, on 2/14/2025.

- **Trimming EPS estimates.** We are lowering EPS (1Q25: $4.03 to $3.14, 2025: $18.47 to $17.38, 2026: from $21.71 to $21.16). Our updated model incorporates (1) $25 million of LA wildfire losses in 1Q25, as disclosed by management (prior total catastrophe loss assumption for 1Q25 was $2 million), (2) slightly lower net investment income, partly because of KNSL's plan to increase its allocation to equities (dividend yields are < fixed income yields), and (3) the flow through of lower premium growth in 4Q24 into future periods. Other than the LA wildfire, our underwriting margin assumptions for 2025 and subsequent periods are largely unchanged. Also, we are maintaining our assumptions for gross premium growth (1Q25: +15%, 2025: +15%, 2026: +12%). Consistent with past practice, we will arrive at a more refined view of 1Q25 gross written premiums towards the end of March using reporting from state stamping offices and 4Q24 statutory premium data, which gives a breakdown between casualty and property business.
- **As KNSL's growth transitions from exceptional to very good, we think that valuation approaches which incorporate equity, as opposed to being solely based on earnings, will become more relevant.** KNSL's operating ROE has been running close to 30% in recent years (2022: +27%, 2023: +33%, 2024: +29%), driving a commensurate increase in equity. Over the same time period, NPW growth has slowed, mainly due to normalization in the property business (2022: +42%, 2023: +35%, 2024: +17%). If KNSL's prospective growth travels more closely to recent levels as we expect (recognizing new opportunities management is pursuing, a potential uplift in casualty pricing, and KNSL's push to more actively trade off pricing and volumes – all of which could add incremental growth), capital generation from the back book is likely to far outpace the surplus needed to write business. Consequently, we would expect net written premium leverage (a rough approximation of required capital which does not account for factors such as KNSL's intent to grow its exposure to equities) to decline by ~10 points per year from 100% at year-end 2024, suggesting excess capital generation of $200-300 million (~$9-13 per share) annually. This assumes that 100% is the appropriate premium leverage for KNSL (our view is that KNSL can operate at higher premium leverage) and that KNSL maintains its current financial leverage of 11% (our view is that KNSL has the flexibility to bring this to peer levels closer to 20%). Capital return is at the discretion of management, and for now its preferred approach is a modest share buyback program ($90 million authorization outstanding).
- **We continue to think that downside risk to EPS from slowing growth has less tail risk than before.** KNSL's recent growth trajectory (GPW growth of +19% in 3Q24, +12% in 4Q24) is within the range of the long-run growth

Insurance - Life & Nonlife

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Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 25E ($)	18.47	17.38

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2024A	2025E	2026E
Q1	3.50	3.14	
Q2	3.75	4.13	
Q3	4.20	4.77	
Q4	4.62	5.34	
FY	16.06	17.38	21.16

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	79	64	58	96	99
Growth	16	13	15	4	10
Momentum	82	42	16	28	8
Quality	1	1	1	9	9
Low Vol	80	74	70	71	76
ESGQ	41	40	25	76	86

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

See page 9 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	-7.9%	-2.4%	-12.5%	-13.4%
Rel	-6.3%	2.9%	-5.4%	-23.5%

Company Data

Shares O/S (mn)	23
52-week range ($)	548.47-355.12
Market cap ($ mn)	9,972.82
Exchange rate	1.00
Free float (%)	94.7%
3M ADV (mn)	0.19
3M ADV ($ mn)	87.6
Volatility (90 Day)	34
Index	RUSSELL 2000
BBG ANR (Buy | Hold | Sell)	3|9|0

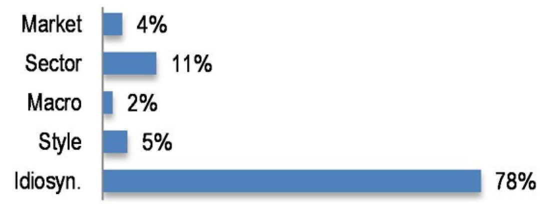
Key Metrics (FYE Dec)

$ in millions	FY24A	FY25E	FY26E
Financial Estimates			
NEP (Premium)	1,350	1,553	1,756
Underwriting income	292	283	338
Net investment income	201	196	247
Operating income	493	479	585
Adj. PBT	481	468	574
Adj. net income	375	408	499
Adj. EPS	16.06	17.38	21.16
BBG EPS	15.72	17.77	21.07
DPS	0.60	0.64	0.68
Investments	1,481	1,854	2,317
BVPS	63.75	79.60	99.16
NAVPS	-	-	-
Margins and Growth			
Adj. EPS growth	28.5%	8.2%	21.7%
Ratios			
Adj. tax rate	20.8%	20.5%	20.4%
Loss ratio	55.8%	59.2%	58.2%
Combined ratio	77.0%	80.4%	79.4%
Invest inc. % of Investments	-	-	-
Regulatory solvency ratio	-	-	-
Leverage (Debt/Debt+Equity)	-	-	-
ROE	29.2%	24.5%	23.9%
Valuation			
Dividend yield	0.1%	0.1%	0.2%
Adj. P/E	26.7	24.7	20.3
P/ BV	6.7	5.4	4.3

Summary Investment Thesis and Valuation

We affirm 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 moderates.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.50	0.15
Sect: Financials	0.35	0.32
Ind: Insurance	0.51	0.47
Macro:		
US 10yr yield	-0.21	-0.16
Credit Spread	-0.13	0.11
Crude Oil	-0.02	-0.11
Quant Styles:		
Size	0.18	-0.20
Momentum	0.32	-0.15
DivYld	-0.17	0.15

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

trajectory management believes the company can grow, and so our view is that potential downside in expectations is less than before. Also, investment income (new money yield is still greater than the portfolio yield), share buybacks, and modest improvement in underwriting margins (reserve releases, expense leverage) could serve as offsets to slower premium growth, as has been the case in the past two quarters.

- **4Q24 summary: earnings higher, with better margins more than offsetting lower premiums.** 4Q24 operating EPS was $4.62, above our $4.42 estimate and consensus of $4.34. Underwriting income was better than our model (+$0.30 per share after taxes), with lower attritional claims (+$0.27), lower catastrophe losses (+$0.08), higher fee income (+$0.02), and higher reserve releases (+$0.01) more than offsetting higher expenses (-$0.05) and a modest shortfall in earned premiums (-$0.03). Net investment income was slightly below our estimate (-$0.02 per share). Gross written premiums (GPW) rose +12.2% to $443.3 million, below our +17.0% estimate ($462.4 million) and consensus of +17.4% ($464.0 million, midpoint of $443-487 million range). KNSL's combined ratio in 4Q24 was 73.4%, better than our 75.8% estimate and consensus of 76.9%. Compared to our model, the favorable variance was driven by lower attritional losses (52.7% vs. 54.8%E), higher reserve releases (-2.6% vs. -2.5%E), and lower catastrophe claims (2.1% vs. 2.8%E), partly offset by a higher expense ratio (21.1% vs. 20.7%E). The core combined ratio (73.9% vs. 75.5%E) was better as well.
- **We are Neutral.** 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 moderates. Having said this, if KNSL's near-term growth trajectory comes in above our expectations, we could become more constructive on the stock.

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Investment Thesis

KNSL held its earnings conference call on February 14, 2025. The call replay is available on https://ir.kinsalecapitalgroup.com.

We are Neutral. Overall, we expect KNSL's premiums and margins to benefit from favorable trends in the E&S market, which continues to generate healthy growth at attractive pricing/terms even after several years of above-trend growth. Despite more competitive conditions, the property market remains compelling in aggregate, especially in small commercial where pricing continues to increase. In the meantime, casualty pricing is experiencing another uptick as more insurers recognize adverse development. Independent of the market environment, we think that Kinsale's low-cost operating model is a sustainable competitive advantage, especially against higher cost insurers like Lloyd's writers. During periods of softer pricing, KNSL's lower expense ratio will allow it to be more competitive on pricing while still generating above-average growth and margins. Also, the combination of strong capital generation in recent years, slowing premium growth, and below-average financial leverage implies that KNSL is likely to have excess capital that will be returned to shareholders via share buybacks or dividends. We remain Neutral on the stock, however, as we think its valuation is full compared to commercial peers and specialist names even after giving credit to KNSL's growth potential and above-average margins. Furthermore, while favorable P&C market conditions are likely to persist through 2025 and will have positive implications for KNSL's reserves and future earnings, the eventual turn in the P&C pricing cycle is a downside risk to the stock's above-average multiple. Less favorable development on older accident years could also decrease the quantum of future reserve releases. Having said this, if KNSL's near-term growth trajectory comes in better than our expectations, we could become more upbeat on the stock.

Well-Positioned to Capitalize on Favorable P&C Market

In our view, the E&S market – where KNSL operates exclusively – will eventually see moderating new business volumes and price hikes as more underwriters focus on growth (a negative for pricing) and admitted markets increase their appetite for risk (recapturing business from E&S). We also expect retail brokers to eventually divert business back to admitted markets to recapture the economics they are sharing with wholesalers. Still, our view is that KNSL can continue to grow premiums at a healthy pace given its small base, the fragmented pricing cycle (whereby certain lines such as property excluding high value homeowners' are seeing pricing deceleration while others such as casualty are seeing another upward inflection), and its ability to be competitive on pricing because of its meaningful expense ratio advantage. With respect to profitability, our view is that the combination of price hikes and conservative reserving will support healthy margins at KNSL for the foreseeable future. However, we think that reserve releases will diminish in the near term given that more mature accident years (2015-2019) are likely to have less redundancy than before, and that more recent accident years (2020 and onwards) – where presumably embedded margins are thicker – are still un-seasoned. Also, to the extent that the gap between nominal pricing and loss trends continues to narrow, there is less scope for attritional loss ratios to improve.

Low Cost Base a Sustainable Competitive Advantage

KNSL has a proprietary and fully integrated technology platform built from ground up – in contrast to peers that use unwieldy systems built off legacy and newer technologies – which allows it to handle significant business volumes without sacrificing customer responsiveness, underwriting quality, and expense efficiency. As a result, KNSL

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maintains an industry leading expense ratio, and we expect it to outperform higher cost competitors through the pricing cycle. During softer markets, KNSL can grow premiums as others pull back while maintaining above-average profitability, and in hard markets, Kinsale can be a price taker and generate excess returns.

KNSL is in the process of updating its technology platform towards a “target state” (about half-way through as of January 2025 at the company’s investor day) with more modular architecture and where insured data can be accessed across multiple applications simultaneously. Management expects these upgrades to deliver cost efficiencies, incremental revenues, and analytical capabilities. The amount of funding for this initiative was not sized by Kinsale, but management noted that it should be fully absorbed in the current run-rate expense ratio.

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 eventually moderate as re/insurers re-position themselves for growth. Given this, we see multiple compression as a risk since pricing/volume swings tend to be more volatile in E&S because of its function as a safety valve for the market. Although we think some portion of E&S share gains is permanent and that KNSL will thrive even if prices soften, a reasonable valuation analysis will have to look several years out because of KNSL’s above-average growth profile and would thus have to account for conditions in the market at that time.

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Investment Thesis, Valuation and Risks

Kinsale *(Neutral; Price Target: $402.00)*

Investment Thesis

We affirm 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 moderates.

Valuation

We are lowering our December 2025 price target from $412 to $402 to reflect our lower EPS estimates. Our price target assumes a 4x multiple on 2026E BV and a 19x multiple on 2026E operating income. These target multiples are well above peers', which we think is supported by KNSL's above-average premium growth (mid-teens growth versus mid- to high-single-digit growth for most large commercial peers) and margin profile (high 70s to low 80s CR versus 85-90% for peers). KNSL trades at 6.7x BV, well above specialty peers of 2.3x and commercial peers at 1.7x. On 2025E earnings, KNSL trades at 24x versus 16x for specialty insurers and 12x for commercial insurers.

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 could lead to 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 pushing back more strongly on price hikes, while more insurers are deploying capital and positioning themselves for growth. If the cycle begins to turn, there is a risk of multiple compression for insurers that have seen an outsized benefit from higher prices.
- **Adverse loss trends or social inflation could reemerge in casualty reserves.** Although unlikely to be a material risk for KNSL given its specific exposures and low limits, the reopening 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 in a strong part of the cycle.

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Still, given the long-tail nature of casualty coverage, the impact of badly underwritten risks is likely to persist. Also, inflation is a risk for both casualty and property coverages.

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Kinsale: Summary of Financials

Income Statement - Annual	FY24A	FY25E	FY26E
Earned premiums	-	-	-
Policy charges and fee income	-	-	-
Net investment income	-	-	-
Other income	-	-	-
Total revenues	**-**	**-**	**-**
Insurance and annuity benefits	-	-	-
Interest credited	-	-	-
Interest expense	(10)	(10)	(10)
Acquisition & operating expenses	-	-	-
Amortization of acquisition costs (net)	-	-	-
Other expenses	-	-	-
Total expenses	**-**	**-**	**-**
Pretax income	481	468	574
Income taxes	(100)	(96)	(117)
Total net income	375	408	499
Total operating income	375	408	499
Weighted average diluted shares	23	23	24
EPS - operating	**16.06**	**17.38**	**21.16**

Income Statement - Quarterly	1Q25E	2Q25E	3Q25E	4Q25E
Earned premiums	-	-	-	-
Policy charges and fee income	-	-	-	-
Net investment income	-	-	-	-
Other income	-	-	-	-
Total revenues	**-**	**-**	**-**	**-**
Insurance and annuity benefits	-	-	-	-
Interest credited	-	-	-	-
Interest expense	(3)	(3)	(3)	(3)
Acquisition & operating expenses	-	-	-	-
Amortization of acquisition costs (net)	-	-	-	-
Other expenses	-	-	-	-
Total expenses	**-**	**-**	**-**	**-**
Pretax income	82	110	130	146
Income taxes	(17)	(23)	(26)	(29)
Total net income	74	97	112	125
Total operating income	74	97	112	125
Weighted average diluted shares	23	24	24	24
EPS - operating	**3.14**	**4.13**	**4.77**	**5.34**

Balance Sheet and Capital Data	FY24A	FY25E	FY26E
Shareholders' equity	-	-	-
Shareholders' equity ex. AOCI	-	-	-
Shares outstanding	23	23	23
Book value per share	63.75	79.60	99.16
Book value per share (ex. AOCI)	-	-	-
Capital for share repurchases	-	-	-
Capital for dividends	-	-	-
Dividends	0.60	0.64	0.68

Ratio Analysis	FY24A	FY25E	FY26E	FY27E
EPS growth - operating	28.5%	8.2%	21.7%	-
Book value per share (ex. AOCI) growth	-	-	-	-
Return on equity (ROE)	29.2%	24.5%	23.9%	-
Return on equity (ex. AOCI)	-	-	-	-
Dividend payout ratio	3.7%	3.7%	3.2%	-
Total revenue growth	-	-	-	-
Total expense growth	-	-	-	-
Tax rate	20.8%	20.5%	20.4%	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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Kinsale (KNSL, KNSL US) Price Chart

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.

Date	Rating	Price ($)	Price Target ($)
28-Apr-22	N	227.90	240
06-Jul-22	N	243.47	220
28-Jul-22	N	235.85	230
27-Oct-22	N	271.40	250
04-Jan-23	N	260.29	270
16-Feb-23	N	299.63	290
27-Apr-23	N	329.68	300
06-Jul-23	N	368.46	340
27-Jul-23	N	385.22	350
02-Oct-23	N	414.13	370
26-Oct-23	N	425.64	375
26-Feb-24	N	508.10	420
26-Apr-24	N	453.09	400
11-Jul-24	N	375.87	420
08-Aug-24	N	457.95	426
10-Oct-24	N	469.63	420
25-Oct-24	N	458.42	415
03-Jan-25	N	454.02	412

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.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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Coverage Universe: Singzon, Pablo S: Bowhead (BOW), Fidelis Insurance (FIHL), Goosehead (GSHD), Hagerty (HGTY), Kinsale (KNSL), Palomar (PLMR), TWFG Insurance (TWFG), The Baldwin Group (BWIN)

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage*	50%	37%	13%
IB clients**	50%	48%	37%
JPMS Equity Research Coverage*	47%	40%	13%
IB clients**	73%	68%	52%

***Please note that the percentages may not add to 100% because of rounding.**
****Percentage of subject companies within each of the "buy," "hold" and "sell" categories for which J.P. Morgan has provided investment banking services within the previous 12 months.**
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