J.P.Morgan

North America Equity Research
25 October 2024

Kinsale

Post 3Q24 Follow Up: Trimming EPS and Price Target, Neutral

Neutral

KNSL, KNSL US
Price (24 Oct 24):$458.42

▼**Price Target (Dec-25):$415.00**
Prior (Dec-25):$420.00

Insurance - Life & Nonlife

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Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2023A	2024E	2025E
Q1	2.44	3.50A	
Q2	2.88	3.75A	
Q3	3.31	4.20A	
Q4	3.87	4.45	
FY	12.50	15.84	18.71

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	48	77	57	92	99
Growth	13	14	14	8	9
Momentum	49	14	3	72	3
Quality	1	1	1	7	16
Low Vol	76	74	62	37	58
ESGQ	41	24	11	76	86

We are reducing our EPS estimates and price target for KNSL, from $420 to $415. Our Neutral rating is unchanged. Kinsale reported 3Q24 earnings on 10/24/2024 and hosted a conference call the following day, on 10/25/2024.

- **Reducing EPS estimates.** We are trimming EPS modestly (4Q24: $4.62 to $4.45, 2025: $18.97 to $18.71, 2026: from $22.54 to $22.28). Our updated model incorporates (1) $7.5 million of Milton losses in 4Q24, partly offset by a better attritional loss ratio (KNSL expects Milton losses of $10 million or below), (2) a lower premium growth curve (21%, 17%, and 14% in 2024, 2025, and 2026 versus 24%, 20%, and 14% previously), (3) higher investment income, and (4) share buybacks of $20 million a year beginning in 1Q25 (KNSL announced a $100 million open-ended buyback program along with 3Q24 results). Our underwriting margin assumptions for 2025 and subsequent periods are largely unchanged. Consistent with past practice, we expect to arrive at a more refined review of 4Q24 gross written premiums towards the end of December using reporting from state stamping offices and 3Q24 statutory premium data, which gives a breakdown of casualty and property business.
- **Premium growth disappointed this quarter, but underwriting results were a meaningful offset.** Gross premium written (GPW) growth was +19%, below consensus of +22% (range of +20-26%), and our estimate of +24%. Although the specific drivers of this outcome (premiums by state and product line) won't be available until KNSL publishes 3Q24 statutory data, management noted that greater competition in certain lines (large account commercial property, professional liability, product liability) led to softer overall growth. In other lines such as general casualty, excess casualty, small account commercial property, and high value homeowners', growth remains strong. Based on our initial read of stamping office data, GPW growth this quarter would imply weakness in California and other states as we estimate that GPW growth was ~25% in TX and FL. On a positive note, management noted that submission growth of +23% accelerated from the second quarter, implying that the top of the funnel for KNSL remains robust and that slower growth is likely from a combination of price moderation (nominal price hikes of 3% in 3Q24 versus 6% in 2Q24) and lower quoting and/or binding ratios. Despite the shortfall in premiums, underwriting results were a bigger offset, with attritional losses, reserve releases, and expenses coming in better than expected.
- **Our view is that given where KNSL's results are running today, downside risk from softer growth has less of a tail than before.** KNSL's current growth trajectory (high-teens to low-20s GPW growth in the past two quarters) is much closer to the mid-teens long-run growth trajectory management believes the business can grow at, and so our view is that potential downside will be less compared to when KNSL was growing +45% and investors were grappling with what KNSL's growth curve would look like as it moves from above-

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.

Price Performance

	YTD	1m	3m	12m
Abs	36.9%	2.0%	23.2%	7.3%
Rel	27.4%	2.2%	22.1%	-24.8%

Company Data

Shares O/S (mn)	23
52-week range ($)	548.47-325.01
Market cap ($ mn)	10,675.75
Exchange rate	1.00
Free float (%)	94.7%
3M ADV (mn)	0.15
3M ADV ($ mn)	70.8
Volatility (90 Day)	39
Index	RUSSELL 2000
BBG ANR (BUY|HOLD|SELL)	1|10|0

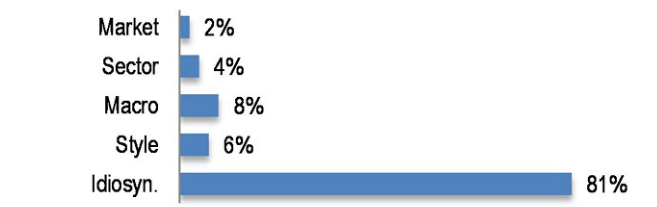
Key Metrics (FYE Dec)

$ in millions	FY23A	FY24E	FY25E	FY26E
Financial Estimates				
NEP (Premium)	1,073	1,355	1,590	1,838
Underwriting income	243	284	316	354
Net investment income	123	200	204	266
Operating income	367	484	520	620
Adj. PBT	357	471	505	605
Adj. net income	291	371	440	525
Adj. EPS	12.50	15.84	18.71	22.28
BBG EPS	11.99	14.84	17.77	21.26
DPS	0.56	0.60	0.64	0.68
Investments	1,084	1,528	1,933	2,422
BVPS	46.88	65.74	82.93	103.62
NAVPS	-	-	-	-
Margins and Growth				
Adj. EPS growth	60.3%	26.7%	18.1%	19.0%
Ratios				
Adj. tax rate	21.3%	20.1%	20.4%	20.4%
Loss ratio	54.6%	56.6%	57.6%	58.2%
Combined ratio	75.9%	77.6%	78.8%	79.4%
Invest inc. % of Investments	-	-	-	-
Regulatory solvency ratio	-	-	-	-
Leverage (Debt/Debt+Equity)	-	-	-	-
ROE	31.8%	28.4%	25.4%	24.1%
Valuation				
Dividend yield	0.1%	0.1%	0.1%	0.1%
Adj. P/E	36.7	28.9	24.5	20.6
P/ BV	9.8	7.0	5.5	4.4

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	0.03	0.09
Sect: Financials	0.26	0.16
Ind: Insurance	0.43	0.38
Macro:		
Non-Energy Commodity	-0.14	-0.20
Credit Spread	0.28	0.16
US 10yr Breakeven	-0.19	0.11
Quant Styles:		
LowVol	0.28	0.24
Quality	-0.02	0.14
Value	0.30	0.08

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.

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normal to long-term growth. Also, KNSL has a share buyback program in place – which can be used more opportunistically if warranted by the stock price. Lastly, the lower magnitude of potential growth downside can be more easily offset by upside in underwriting margins, and at more "normal" levels of growth, we think that KNSL's actions to trade off margins and growth (i.e. KNSL pricing below others for certain pieces of business because of its expense advantage) can be more impactful.

- **3Q24 summary: earnings better, with lower premiums more than offset by margins.** 3Q24 operating EPS was $4.20, above our $4.01 estimate and consensus of $3.62. Underwriting income was better than our model (+$0.19 per share after taxes), with lower attritional claims (+$0.33), higher favorable development (+$0.03), higher fee income (+$0.02), and lower expenses (+$0.19) more than offsetting a shortfall in earned premiums (-$0.30) and higher catastrophe losses (-$0.08). Net investment income came in above our estimate (+$0.03 per share after tax). Gross written premiums (GPW) rose +18.8% to $448.6 million, below our +24.0% estimate ($468.5 million) and consensus of +22.3% ($462.2 million). Meanwhile, KNSL's combined ratio in 3Q24 was 75.7%, better than our 77.8% estimate and consensus of 80.8%. On a core basis, underwriting margins were also healthy (CR ex. cats and PYD 74.7% vs. 77.2%E).
- **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 October 25, 2024. The call replay is available on https://ir.kinsalecapitalgroup.com.

We remain 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 stable conditions in 2024 (i.e. less of a positive delta than in 2023), the property market remains compelling and KNSL intends to grow the relative size of this business (~30% of premiums in 2023) while controlling its exposure to property catastrophe risk. In the meantime, casualty pricing could experience 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. 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. Further, while favorable P&C market conditions are likely to persist through 2024 and early 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 and the fragmented pricing cycle whereby certain lines are seeing pricing deceleration (property excluding high value homeowners') and others could potentially see another upward inflection (casualty). 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 continue to narrow, there is less scope for KNSL to report improving attritional loss ratios.

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 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” 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: $415.00)*

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 $420 to $415 to reflect lower EPS estimates. Our price target assumes a x multiple on 2026E BV and an 18.5x 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 6.8x BV, well above specialty peers (ex. PLMR) of 2.6x and commercial peers at 1.9x. On 2025E earnings, KNSL trades at 22x versus 14x for specialty insurers (ex. PLMR) and 11x 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 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.

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	FY23A	FY24E	FY25E
Earned premiums	-	-	-
Policy charges and fee income	-	-	-
Net investment income	-	-	-
Other income	-	-	-
Total revenues	**-**	**-**	**-**
Insurance and annuity benefits	-	-	-
Interest credited	-	-	-
Interest expense	-	-	-
Acquisition & operating expenses	-	-	-
Amortization of acquisition costs (net)	-	-	-
Other expenses	-	-	-
Total expenses	**-**	**-**	**-**
Pretax income	357	471	505
Income taxes	(76)	(95)	(103)
Total net income	291	371	440
Total operating income	291	371	440
Weighted average diluted shares	23	23	24
EPS - operating	**12.50**	**15.84**	**18.71**

Income Statement - Quarterly	1Q24A	2Q24A	3Q24A	4Q24E
Earned premiums	-	-	-	-
Policy charges and fee income	-	-	-	-
Net investment income	-	-	-	-
Other income	-	-	-	-
Total revenues	**-**	**-**	**-**	**-**
Insurance and annuity benefits	-	-	-	-
Interest credited	-	-	-	-
Interest expense	-	-	-	-
Acquisition & operating expenses	-	-	-	-
Amortization of acquisition costs (net)	-	-	-	-
Other expenses	-	-	-	-
Total expenses	**-**	**-**	**-**	**-**
Pretax income	108A	107A	136A	121
Income taxes	(17)A	(23)A	(30)A	(24)
Total net income	82A	87A	98A	104
Total operating income	82A	87A	98A	104
Weighted average diluted shares	23A	23A	23A	23
EPS - operating	**3.50A**	**3.75A**	**4.20A**	**4.45**

Balance Sheet and Capital Data	FY23A	FY24E	FY25E
Shareholders' equity	-	-	-
Shareholders' equity ex. AOCI	-	-	-
Shares outstanding	23	23	23
Book value per share	46.88	65.74	82.93
Book value per share (ex. AOCI)	-	-	-
Capital for share repurchases	-	-	-
Capital for dividends	-	-	-
Dividends	0.56	0.60	0.64

Ratio Analysis	FY23A	FY24E	FY25E	FY26E
EPS growth - operating	60.3%	26.7%	18.1%	19.0%
Book value per share (ex. AOCI) growth	-	-	-	-
Return on equity (ROE)	31.8%	28.4%	25.4%	24.1%
Return on equity (ex. AOCI)	-	-	-	-
Dividend payout ratio	4.5%	3.8%	3.4%	3.1%
Total revenue growth	-	-	-	-
Total expense growth	-	-	-	-
Tax rate	21.3%	20.1%	20.4%	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-Oct-21	N	163.26	225
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

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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	Overweight (buy)	**Neutral** (hold)	**Underweight** (sell)
J.P. Morgan Global Equity Research Coverage*	49%	38%	13%
IB clients**	50%	46%	38%
JPMS Equity Research Coverage*	46%	41%	13%
IB clients**	71%	67%	54%

***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.**
For purposes of FINRA ratings distribution rules only, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above. This information is current as of the end of the most recent calendar quarter.

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