

# Markel Corporation (NYSE:MKL)

Sector: Financial (NAICS: 524126)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$775.00	\$646.35	\$666.00	\$513.96	0.81	35.02	\$9.03B (Mid Cap)	0.00%

## Industry Trends

The property and casualty insurance industry is currently in a soft market with a large amount of competition regarding policy pricing, but seems to be transitioning to a hard market. Insurance companies continue to build capital since the recent collapse, which has led to an increase of investment in mortgage insurance, crop and specialty lines. Many firms continue to expand their global reach in search of higher returns and less competition.

## Investment Thesis

Markel Corporation is one of the few insurance companies who has consistently underwritten profitability in the past, and not only does this offer another source of income, but it allows them to invest more capital without having any cost on that capital. Their market position as a niche insurance underwriter allows them to make consistent profits due to the difficulty in underwriting certain risks. Markel has also had consistent investment returns due to a long-term approach that allows more investment in equities than most other insurance companies. Given that equities have returned, on average, more than other common asset classes, Markel Corporation has a clear advantage over other property and casualty insurance companies.

## Business Summary

Markel Corporation operates in three sectors: insurance, investment and private equity, which is represented through Markel Ventures. Markel Corporation offers insurance in a variety of niche markets through excess and surplus lines and specialty insurance and has recently expanded into global reinsurance through a recent acquisition of Alterra Capital Management. The insurance sector of Markel Corporation offers a decent operating profit and allows the company a three to four year period in which Markel invests insurance reserves and unearned premiums in short-term investment-grade bonds. Markel also invests much of its shareholder equity in equities compared to the rest of property and casualty insurance industry.

## MKL 5-year stock performance vs. S&P 500:



(Yahoo Finance)

## Corporate Social Responsibility:

ESG Disclosure Rating	14.47 (Ind. Avg.: 14.91)
Environmental Disclosure Score	1.79 (Ind. Avg.: 6.75)
Carbon Disclosure Score	30.00 (Ind. Avg.: 63.88)
Social Disclosure Score	3.33 (Ind. Avg.: 12.93)
Governance Disclosure Score	51.79 (Ind. Avg.: 52.55)
Equal Opportunity Policy	0 (Ind. Avg.: 1)
Community Spending	N/A (Ind. Avg.: 10.29M)
Total Energy Consumption	N/A (Ind. Avg.: 0.32)

Source: Bloomberg, Yahoo Finance, Markel Corporation

## Competition:

- Markel Corporation competes among a variety of property and casualty insurance companies, though due to the nature of their niche insurance underwriting contracts, few companies compete directly with them. The top few competitors in terms of similar market capitalization include CNA Financial Corporation (CNA), XL Group PLC (XL) and Cincinnati Financial Corporation (CINF).

## Pros:

- Markel has constantly underwritten profitable premiums due to its reputation as a successful niche market insurer
- The recent acquisition of Alterra has greatly increased insurance premiums and increased Markel's global reach in the insurance and reinsurance market
- Markel has shown consistent growth in the past with a 16% 20-year CAGR of Book Value per share
- Markel Ventures has grown revenues 40% over the past year and while still small, is a source for potential future growth

## Cons:

- The new acquisition of Alterra means more exposure to reinsurance, which is often less profitable than excess and surplus lines and specialty insurance
- The Alterra acquisition will require Markel to reallocate approximately 30% of shareholder equity to equities
- With a heavy investment in equities, Markel faces more exposure to the equity market than most property and casualty insurance companies

## Value Estimate:

**\$775-\$975**

(2016-2018)

**Estimated Real Annual Return:**

**8%-12%**

Expected inflation	3%
Current EPS	\$19.22
Forecasted EPS Growth	12.5%
Credit Quality	Baa2/BBB
ROE	4.3%
ROA	1.2%
Price/Book	1.26
Debt/Equity	31.34
Debt/Capital	23.86
Price/Cash Flow	12.2
10 yr. Risk Free Rate	2.43%
WACC	10%

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Student Managed Fund