

Analyst Report: MGIC Investment Corporation (MTG)

Industries: Financial, Insurance

MGIC navigates a dynamic mortgage insurance market, balancing growth opportunities with interest rate and competitive pressures.

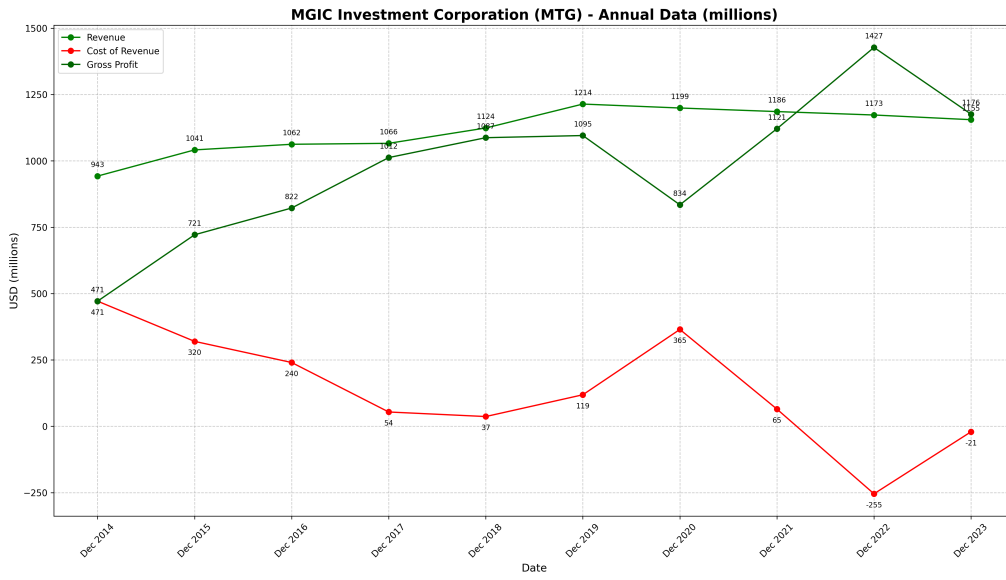
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$22.25 - \$25.25	\$15.25 - \$18.25
Sum of the Parts	\$21.75 - \$24.75	\$14.75 - \$17.75
Relative Multiples	\$20.50 - \$23.50	\$13.50 - \$16.50
Discounted Cash Flow	\$19.00 - \$22.00	\$12.00 - \$15.00

SUMMARY DATA (ANNUAL)

52-Week High	\$26.56
52-Week Low	\$18.68
Shares	283.61
EPS	2.51
Dividend	0.43
Revenue	1,155.10
Cost of Revenue	-20.86
Gross Profit	1,175.96
EBIT	939.13

OUTLOOK

Over the next two quarters or six months, MGIC Investment Corporation is expected to navigate a dynamic market environment characterized by evolving housing market conditions and broader economic trends. The company's focus on strategic initiatives, including technology investments, customer experience enhancements, and risk management, will be crucial for maintaining its competitive position and driving growth. MGIC's performance will likely be influenced by factors such as interest rate movements, home price trends, and the level of mortgage originations. The company's ability to adapt to these market dynamics, manage its capital position effectively, and execute its growth strategy will determine its success in the coming months. While challenges remain, MGIC's strong financial foundation, established market presence, and commitment to innovation position it to navigate the evolving landscape and deliver value to shareholders. The company's performance may also be influenced by regulatory developments, competitive pressures, and broader economic conditions, such as inflation and employment trends. MGIC's management will need to carefully monitor these factors and adapt its strategies accordingly to maintain its financial strength and capitalize on emerging opportunities.



1. Business Description

MGIC Investment Corporation's latest 10K filing provides a comprehensive overview of the company's performance and financial standing as of December 31, 2023. The report highlights key achievements, strategic initiatives, and risk factors that influenced the company's operations during the fiscal year. A significant aspect of the filing is the detailed breakdown of MGIC's mortgage insurance portfolio, including its geographic distribution, product characteristics, and performance trends. The report emphasizes the company's continued efforts to enhance its risk management framework, strengthen customer relationships, and maintain capital flexibility throughout the economic cycle. Additionally, the filing includes in-depth discussions of regulatory compliance, cybersecurity measures, human capital management, and investment strategies. Overall, the 10K filing offers valuable insights into MGIC's business operations, financial performance, and future outlook, providing investors and stakeholders with a comprehensive understanding of the company's position in the mortgage insurance industry.

The filing emphasizes the significant impact of macroeconomic conditions on the mortgage insurance industry and MGIC's business. Factors such as interest rate fluctuations, home price trends, unemployment levels, and the regulatory environment play a crucial role in shaping the company's performance. The report underscores the importance of maintaining a robust risk management framework to navigate these challenges and capitalize on emerging opportunities. Moreover, it highlights the company's commitment to sustainable business practices, including environmental, social, and governance initiatives, to enhance long-term value creation. The 10K filing also sheds light on MGIC's strategic initiatives for future growth, including investments in technology, customer experience enhancements, and the development of new products and services. The information provided in the filing serves as a valuable resource for shareholders, investors, and analysts seeking to assess MGIC's financial health, strategic direction, and long-term prospects.

Key highlights include the achievement of \$713 million in net income, a strong capital position exceeding regulatory requirements, and the successful execution of reinsurance programs to manage risk. The filing also emphasizes the company's commitment to returning capital to shareholders through share repurchases and dividend payments while prioritizing investments in technology and human capital to drive future growth. The report also addresses the evolving competitive landscape in the mortgage insurance industry, noting the impact of alternative credit enhancement products and the ongoing competition from government-sponsored programs. MGIC's strategic response to these challenges, including its focus on risk-based pricing and customized rate plans, is also outlined in the filing. The detailed discussions of financial performance, risk management, and strategic initiatives provide investors and stakeholders with a comprehensive view of MGIC's operations and future direction, underscoring the company's commitment to long-term value creation in a dynamic market environment.

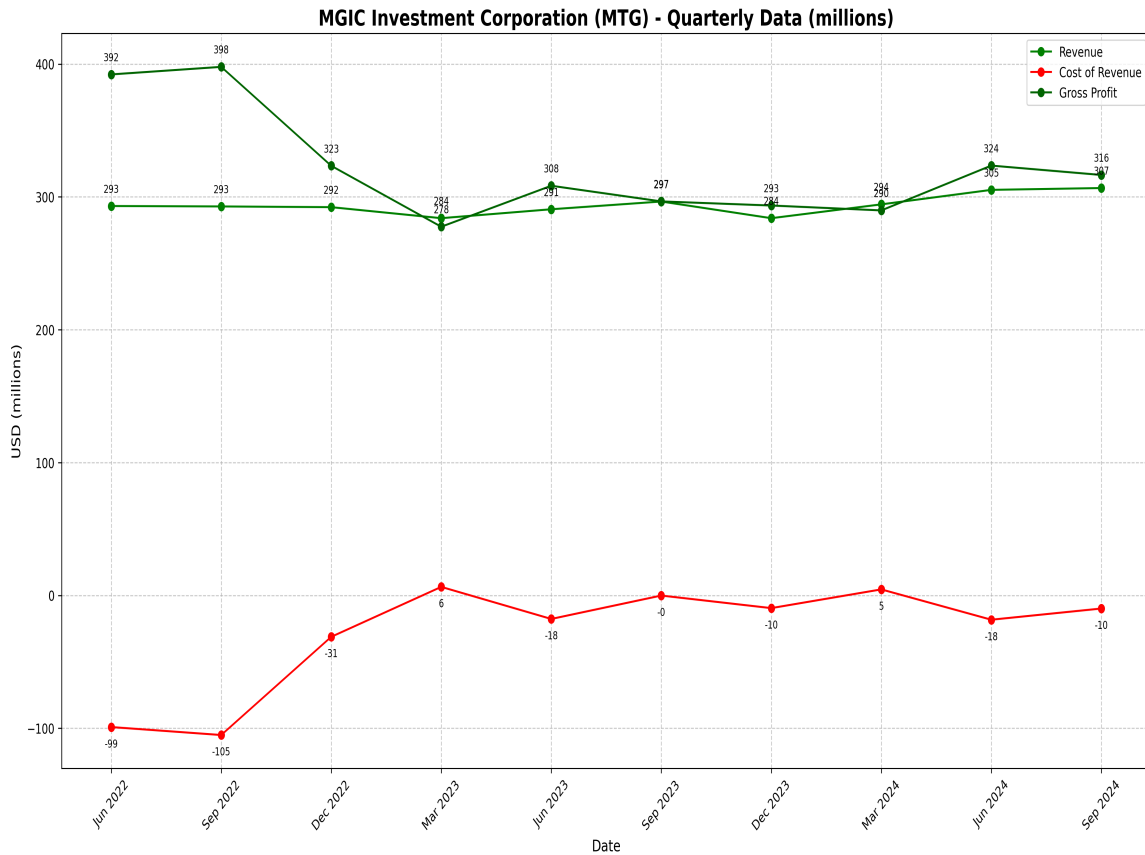
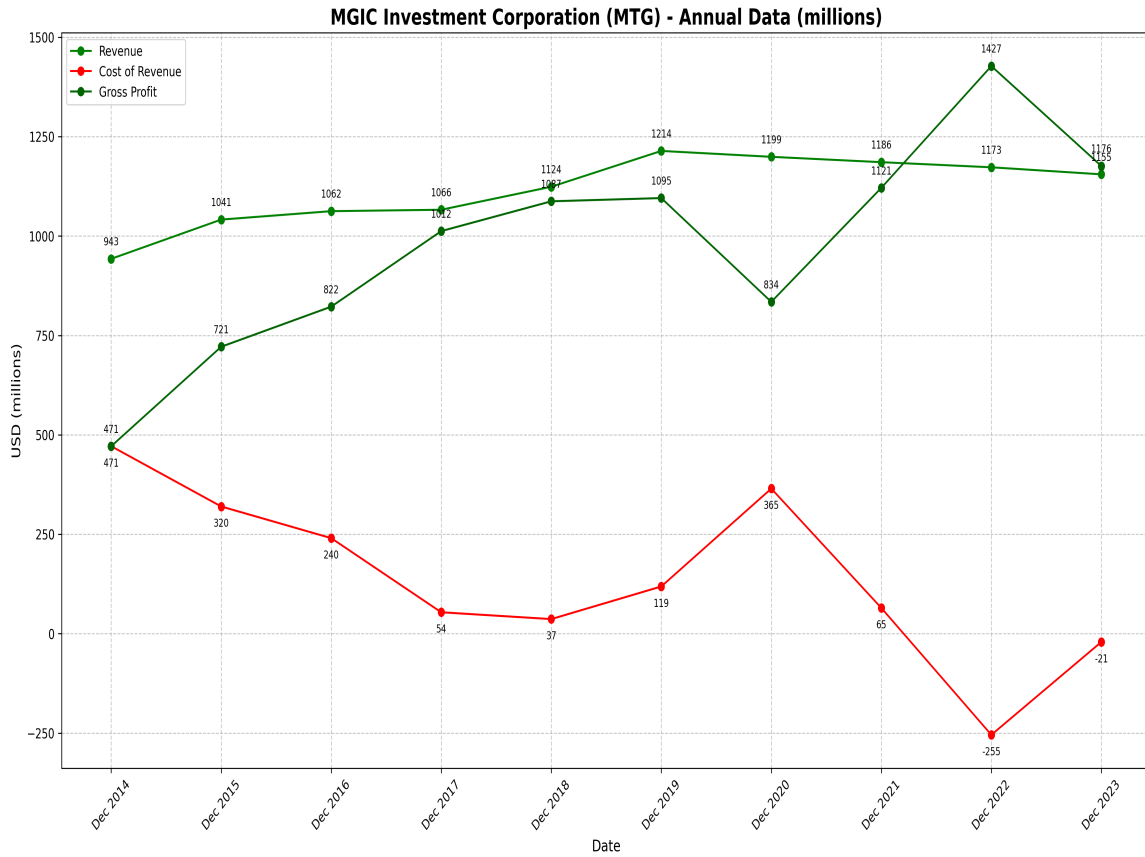
The 10-K details MGIC's insurance in force (IIF) and risk in force (RIF) by policy year and loan characteristics. It provides insights into the company's reinsurance agreements, outlining the types of reinsurance utilized (quota share and excess of loss) and the benefits derived from these agreements in managing risk and capital requirements. Furthermore, the report details MGIC's investment portfolio, which consists primarily of fixed-income securities, and its strategy for managing investments to preserve capital, limit volatility, and maximize returns. The 10-K also provides details of MGIC's regulatory environment, emphasizing the comprehensive regulation by state insurance departments and the GSEs' private mortgage insurer eligibility requirements (PMIERS). The report further discusses MGIC's cybersecurity program, highlighting the measures taken to protect confidential and proprietary information from cyber threats. Finally, the 10-K outlines MGIC's human capital practices, its commitment to diversity, equity, and inclusion, and its programs for total rewards and talent management. The information contained in the 10-K offers a comprehensive understanding of MGIC's business operations, risk management strategies, regulatory environment, and financial performance.

2. Financial Analysis

Over the past decade, MGIC Investment Corporation has experienced a period of financial recovery and growth following the challenges of the 2008 financial crisis. A review of the company's income statements, balance sheets, and cash flow statements reveals a trajectory of improved profitability, strengthened capital position, and increased operational efficiency. The company's revenue stream, primarily derived from net premiums earned, has shown fluctuations over the years, reflecting the cyclical nature of the mortgage insurance industry and the broader economic environment. However, the company's consistent efforts to manage risk through reinsurance programs and maintain a diversified investment portfolio have contributed to its financial stability. The balance sheet reflects a strong capital position, with a healthy ratio of assets to liabilities and a steadily growing shareholders' equity. MGIC's cash flow statements demonstrate its ability to generate positive cash flow from operating activities, enabling it to invest in strategic initiatives and return capital to shareholders.

In recent years, the company's net income has shown positive trends, driven by favorable loss development, increased investment income, and effective expense management. While the COVID-19 pandemic had a temporary impact on the company's financial performance, MGIC navigated the challenges effectively, maintaining its financial strength and capital flexibility. The company's long-term debt levels have been managed prudently, reflecting its commitment to maintaining a balanced capital structure. Overall, MGIC's financial evolution over the past decade showcases its resilience, strategic adaptability, and commitment to long-term value creation in a dynamic market environment.

Analysis of the quarterly financial data for the past ten quarters provides a more granular view of MGIC's financial performance and trends. The quarterly data reveal the company's consistent efforts to manage expenses, adapt to market conditions, and optimize its capital allocation strategies. The quarterly income statements reflect fluctuations in net premiums earned, reflecting the seasonal nature of the mortgage insurance business and the impact of interest rate changes on refinancing activity. Investment income has shown positive trends, benefiting from the company's strategic investments in fixed-income securities. The quarterly balance sheets reveal the company's ongoing efforts to maintain a healthy balance between assets and liabilities, ensuring sufficient liquidity and capital adequacy. Furthermore, the quarterly cash flow statements demonstrate the company's ability to generate positive cash flow from operating activities, enabling it to meet its financial obligations and invest in growth opportunities. Overall, the quarterly data provide a more nuanced understanding of MGIC's financial performance, highlighting its ability to navigate market fluctuations and maintain its financial strength.



BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	6,538.38	6,213.79	7,325.01	7,354.53	6,229.57	5,677.80	5,619.50	5,734.53	5,868.34	5,266.43
Total Debt	643.20	662.81	1,146.71	1,243.19	832.74	831.59	830.43	1,178.74	1,211.82	1,296.44
Shares	283.61	305.85	334.33	339.95	352.83	365.41	362.38	342.89	339.55	338.52
EPS	2.51	2.83	1.90	1.31	1.91	1.83	0.98	1	3.45	0.74
Dividend	0.43	0.36	0.28	0.24	0.12	0	0	0	0	0
Revenue	1,155.10	1,172.79	1,185.67	1,199.15	1,213.98	1,123.85	1,066.05	1,062.48	1,041.29	942.63
Cost of Revenue	-20.86	-254.56	64.58	364.77	118.58	36.56	53.71	240.16	319.80	471.37
Gross Profit	1,175.96	1,427.35	1,121.10	834.37	1,095.40	1,087.29	1,012.35	822.33	721.49	471.27
EBIT	939.13	1,138.09	873.14	618.86	900.63	897.14	841.53	571.39	556.62	324.37

(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	6,677.78	6,523.92	6,535.25	6,538.38	6,331.68	6,353.45	6,352.29	6,213.79	6,154.12	6,599.61
Total Debt	644.30	643.93	643.56	643.20	642.83	663.55	663.18	662.81	662.65	917.91
Shares	258.60	265.31	270.31	275.87	281.76	285.91	290.99	296.10	302.62	308.84
EPS	0.77	0.77	0.64	0.66	0.65	0.67	0.53	0.65	0.82	0.81
Dividend	0.13	0.12	0.12	0.12	0.12	0.10	0.10	0.10	0.10	0.08
Revenue	306.65	305.28	294.36	283.96	296.50	290.68	283.96	292.25	292.80	293.12
Cost of Revenue	-9.84	-18.27	4.55	-9.53	-0.08	-17.69	6.45	-31.14	-105.05	-99.06
Gross Profit	316.49	323.55	289.81	293.49	296.58	308.37	277.52	323.39	397.85	392.17
EBIT	263.20	268.72	228.78	238.75	243.65	251.76	204.98	249.82	324.57	329.35

(* millions, except EPS and dividend)

4. Current Media Coverage & Stories

Recent media headlines surrounding MGIC Investment Corporation have primarily focused on the company's financial performance, stock movements, and industry trends. Several headlines have highlighted the company's strong earnings growth, driven by favorable loss development in its mortgage insurance portfolio and increased investment income. Other headlines have reported on MGIC's stock reaching new 52-week highs, reflecting positive investor sentiment and strong market performance. Some media coverage has also focused on the company's reinsurance programs, which are designed to manage risk and optimize capital efficiency. Other headlines have discussed the regulatory landscape affecting the mortgage insurance industry, such as the GSEs' PMIERS and state capital requirements.

Furthermore, some news articles have analyzed the broader industry trends impacting MGIC and its competitors, such as the growth of the housing market, rising interest rates, and the increasing popularity of low down payment mortgages. Some media outlets have also covered MGIC's corporate governance practices, diversity and inclusion initiatives, and community involvement programs. These headlines and news stories reflect the various factors that influence the company's operations and stock performance, providing investors and stakeholders with up-to-date information on MGIC's developments.

It's important to note that the media headlines related to the politician Marjorie Taylor Greene do not relate to MGIC Investment Corporation. These headlines discuss political matters and are unrelated to the company's business or financial performance.

5. Financial vs. Stock vs. Media Coverage Situations

The media headlines and stories about MGIC Investment Corporation generally align with the company's financial data and the movement of its stock price over the past year. The headlines highlighting MGIC's strong earnings growth and positive stock performance reflect the company's positive financial results and investor sentiment. The news articles discussing MGIC's reinsurance programs and regulatory compliance demonstrate the company's commitment to managing risk and maintaining its financial stability, which contributes to investor confidence. Moreover, the media coverage of broader industry trends impacting MGIC, such as the growth of the housing market and rising interest rates, helps to explain the stock's volatility and its performance relative to competitors.

The headlines about MGIC's stock reaching 52-week highs reflect the positive momentum in the company's share price, driven by strong financial performance and optimistic industry outlook. The media's focus on regulatory matters, such as the GSEs' PMIERS and state capital requirements, highlights the importance of these factors in shaping the company's business operations and ensuring its financial strength. Overall, the media narrative generally supports the company's financial and stock market performance.

However, it's essential to acknowledge the limitations of media coverage. Media headlines and stories may not always provide a comprehensive and unbiased view of the company's situation. Investors should consider media reports in conjunction with a thorough analysis of the company's financial data, regulatory filings, and other relevant information to form a complete picture of its performance and prospects.

6. Industry Analysis

The mortgage insurance industry, in which MGIC Investment Corporation operates, is characterized by a cyclical nature influenced by fluctuations in the housing market and broader economic conditions. The industry faces both drivers and headwinds that shape its performance and outlook. Key drivers include the increasing demand for affordable housing, particularly among first-time homebuyers, and the continued growth of the mortgage market. Low interest rates and government initiatives aimed at promoting homeownership can further stimulate demand for mortgage insurance, benefiting companies like MGIC. However, the industry also faces several headwinds. Rising interest rates can dampen mortgage origination volumes, impacting demand for mortgage insurance. Economic downturns and declines in home prices can lead to increased mortgage defaults, resulting in higher claims payouts for insurers.

Competition within the industry is intense, with MGIC facing competition from both private mortgage insurers and government-sponsored programs like the FHA. Regulatory compliance, including the GSEs' PMIERS and state capital requirements, imposes significant financial and operational burdens on insurers, requiring them to maintain strong capital positions and adhere to strict underwriting guidelines. The industry is also subject to evolving consumer preferences and technological advancements, requiring insurers to adapt their products and services to meet changing market demands. Relative strategic positioning is crucial for companies in the industry to maintain their competitiveness and capture market share. Brand recognition and reputation play a vital role in attracting customers and building trust.

Market penetration, expanding reach to new customer segments and geographic areas, is a key driver of growth for mortgage insurers. The industry is influenced by factors such as housing affordability, consumer confidence, and the regulatory landscape. Companies that can effectively navigate these challenges and capitalize on emerging opportunities are well-positioned for success in the mortgage insurance industry.

7. Drivers & Challenges

MGIC Investment Corporation currently faces several key drivers and challenges that shape its operating environment and influence its future trajectory. One of the primary drivers is the growing demand for affordable housing, particularly among first-time homebuyers, fueled by demographic trends and increasing urbanization. This trend creates a favorable environment for mortgage insurance, as it enables more individuals to purchase homes with lower down payments. Another driver is the continued growth of the mortgage market, driven by favorable interest rates and government initiatives aimed at promoting homeownership. However, rising interest rates pose a challenge for MGIC, as they can dampen mortgage origination volumes, potentially impacting demand for mortgage insurance.

Economic downturns and declines in home prices also present challenges, as they can increase the risk of mortgage defaults and lead to higher claim payouts for insurers. Competition in the mortgage insurance industry is intense, with MGIC competing against other private mortgage insurers and government-sponsored programs like the FHA. Regulatory compliance, including PMIERS and state capital requirements, imposes significant financial burdens and operational complexities on the company. Evolving consumer preferences and technological advancements require MGIC to continuously innovate and adapt its products and services to meet changing market demands. The company also faces challenges related to cybersecurity threats and the protection of sensitive customer information.

MGIC must effectively manage its capital position and maintain sufficient liquidity to navigate these challenges and capitalize on growth opportunities. Furthermore, attracting and retaining qualified personnel is crucial for the company's success in a competitive talent market. MGIC's ability to address these drivers and challenges will determine its ability to maintain its market share, profitability, and long-term sustainability in the mortgage insurance industry.

8. Bull Case

In a bullish scenario for MGIC Investment Corporation, several factors converge to create a positive and optimistic outlook for the company and its stock. Continued growth in the housing market, fueled by strong demand and favorable demographics, drives increased mortgage originations and higher demand for mortgage insurance. Low interest rates further stimulate the mortgage market, making homeownership more accessible to a broader range of consumers, particularly first-time homebuyers. MGIC benefits from its strong brand recognition, established customer relationships, and robust risk management framework, allowing it to capture a significant share of the growing mortgage insurance market. The company's reinsurance programs prove highly effective in mitigating risk and optimizing capital efficiency, contributing to improved profitability.

Favorable loss development in MGIC's mortgage insurance portfolio leads to lower-than-expected claim payouts, further boosting profitability. The company's strategic investments in technology and customer experience enhancements pay off, resulting in improved operational efficiency and increased customer satisfaction. The regulatory environment remains stable and supportive of private mortgage insurance, providing a favorable backdrop for MGIC's business operations. The company's strong financial performance and positive industry outlook attract investor interest, driving up demand for its stock and leading to higher share prices.

MGIC's management team executes its growth strategy successfully, expanding into new markets and introducing innovative products and services to meet evolving customer demands. The company's commitment to sustainable business practices and corporate social responsibility enhances its reputation and attracts socially conscious investors. These factors contribute to a sustained period of growth and profitability for MGIC, creating a compelling investment opportunity for long-term investors.

9. Bear Case

In a bearish scenario for MGIC Investment Corporation, a combination of unfavorable factors creates a negative and pessimistic outlook for the company and its stock. A downturn in the housing market, triggered by rising interest rates, declining home prices, or weakening economic conditions, leads to reduced mortgage originations and lower demand for mortgage insurance. MGIC faces increased competition from government-sponsored programs like the FHA, which gain market share due to their perceived lower risk and broader eligibility criteria. The company's loss development deteriorates, with higher-than-expected claim payouts impacting profitability. The regulatory environment becomes more stringent, with stricter capital requirements and underwriting guidelines increasing operational complexities and squeezing profit margins.

MGIC's reinsurance programs prove less effective than anticipated in mitigating losses, impacting the company's financial performance. The company's investments in technology and customer experience fail to yield significant returns, adding to operational expenses without generating proportionate improvements in efficiency or customer satisfaction. Investor sentiment towards MGIC turns negative, leading to reduced demand for its stock and lower share prices.

The company's management team struggles to adapt to the changing market environment, failing to execute its growth strategy effectively. Negative news or events related to the company or the mortgage insurance industry further erode investor confidence, exacerbating the decline in stock price. These factors contribute to a period of reduced profitability and declining market share for MGIC, painting a bleak picture for short-term investors.

10. Forward Valuation

Based on the provided financial, stock market, and media information, a forward valuation of MGIC Investment Corporation's stock can be derived using various pricing models. The discounted cash flow (DCF) model estimates the stock's intrinsic value by discounting the company's projected future cash flows back to their present value. Relative valuation, using multiples-based comparisons to peer companies, provides another perspective on MGIC's valuation. The sum-of-the-parts (SOTP) model values the company's individual business segments separately and adds them up to arrive at a total valuation. Implied option valuation incorporates the value of potential future growth opportunities into the stock price. For each model, bullish and bearish estimates are provided to account for different market scenarios and risk factors.

For the DCF model, a bullish scenario assumes continued growth in cash flows, driven by favorable market conditions and effective management execution, while a bearish scenario considers potential headwinds and increased risk factors. In the relative valuation approach, bullish estimates reflect higher multiples compared to peers, based on MGIC's strong market position and growth prospects, while bearish estimates assume lower multiples due to increased competition and market uncertainty. The SOTP model incorporates bullish assumptions about the future performance of MGIC's individual business segments and bearish assumptions that consider potential challenges and competitive pressures. Implied option valuation considers both optimistic and pessimistic scenarios for MGIC's future growth opportunities and their impact on the stock price.

It's important to note that these valuation models are based on assumptions and projections about future performance, which are inherently uncertain. The actual stock price may deviate from the estimated valuations due to various factors, including market volatility, unexpected events, and changing investor sentiment. Investors should consider these valuation estimates in conjunction with other relevant information and conduct their own due diligence before making investment decisions.

11. Executive Summary

MGIC Investment Corporation's primary drivers include the robust demand for affordable housing, fueled by favorable demographics and government initiatives promoting homeownership, creating a positive environment for mortgage insurance. The company's strong brand recognition, established customer relationships, and effective risk management framework, along with strategic investments in technology and customer experience, position it to capture a substantial share of the growing mortgage insurance market. Increased investment income, favorable loss development, and prudent expense management contribute to enhanced profitability and shareholder returns. However, MGIC faces challenges, including rising interest rates, potential economic downturns, increasing competition, and stricter regulatory requirements, requiring strategic adaptability and financial discipline.

Opportunities for MGIC lie in expanding into new markets, developing innovative products and services, and leveraging technological advancements to improve operational efficiency and customer satisfaction. The company's commitment to sustainable business practices and DEI strengthens its brand reputation and attracts socially conscious investors, enhancing long-term value creation. However, MGIC must carefully navigate the cyclical nature of the mortgage insurance industry, manage its capital position prudently, and adapt to changing consumer preferences and technological disruptions to maintain its competitive edge and ensure long-term success.

Threats to MGIC include intensifying competition from private insurers and government programs like the FHA, which may gain market share by offering lower rates or broader eligibility criteria. Adverse economic conditions, such as recessions or housing market declines, can increase default rates and claim payouts, impacting profitability and financial stability. Changes in the regulatory environment, with stricter capital requirements or underwriting guidelines, may squeeze profit margins and increase operational complexities. Cybersecurity threats, potential legal proceedings, and the departure of key personnel pose additional risks. MGIC's ability to mitigate these threats through effective risk management, regulatory compliance, cybersecurity measures, succession planning, and talent retention will be crucial for its long-term performance.