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Selective Insurance Group Research

Description: They are a holding company for ten property and casualty insurance companies and they provide insurance products and services in the United States through 4 segments: Standard Commercial Lines, Standard Personal Lines, Excess and Surplus (E&S) Lines, and Investments.

Ticker: SIGI

Price: $63.54

Market Cap: $3.7B

Performance: +9.6% YTD

Fundamentals vs Chubb (CB) and Travelers (TRV):

P/B: 2.2x vs. 1.2x vs. 1.5x

P/E: 23.3x vs. 12.1x vs. 14.3x

Forward P/E: 16.2x vs. 12.4x vs. 11.8x

PEG: 1.2x vs. 1.3x vs. 0.8x

P/S: 1.5x vs. 1.9x vs. 1.1x

Forward P/S: 1.4x vs. 2.1x vs. 1.2x

Gross Margins: 24% vs. 27.2% vs. 25.9%

Net Income Margins: 6.3% vs. 15.5% vs. 8.2%

Analysis:

The company is much smaller than other property and casualty insurance companies and trades at a bit steeper valuation than CB and TRV but based on the following stats it seems to be for a reason. For starters, SIGI grew their revs about 8% vs. TRV at 5.3% and CB at 2.6%.

After three quarters of results, SIGI increased their full-year 2018 after-tax net investment income guidance by $6M, to $156M, as well as increasing catastrophe losses by 0.5 points, to 4.0 points. It's a little early to tell but the company expects Hurricane Michael damage in Florida and Georgia to cost them about $10M.

This led us to do some more research on the climate because if these hurricanes keep coming in there could be more losses in the future for SIGI. There's some new evidence we found that the rate hurricanes travel across the globe is slowing down. A new study in Nature found that hurricanes, on average, moved 1.2 mph slower in 2016 than they did in 1949. Now this isn't windspeed we're talking about. We're talking about the speed in which the hurricane itself moves in a direction. As hurricanes spend more time lingering over a particular area the more wind, rain, and damage can be expected. We are by no means climate experts but some other stats we found were pretty alarming (please note that we take all of it with a grain of salt as who knows what is politically motivated and what isn't) but category 5's begin at 157 mph and is left open-ended. The new projections forecasted by some analysts see some storms with maximum sustained winds of more than 190 mph. Only 9 such storms were observed in the 20th century that had 190+ mph winds. The scary thing is that from now up to 2035, they project 32 of these extreme storms and 72 for 2081 - 2100. In fact, these analysts would prefer to create a brand new category 6 to describe these future storms they believe are on the way. To bring this back to SIGI, all we're saying is that if this does indeed happen it could spell trouble (but let's be real if these storms do come SIGI is the last thing we'll be thinking about lol). (edited)

More on the business:

So far this year, they have appointed 90 new distribution partners, including entering New Mexico and Utah, bringing the total to over 1,300 and approximately 2,200 store fronts. They also entered Colorado earlier this year.

Their annualized ROE is 12.9% and the annualized non-GAAP operating ROE was at very strong 13.8%.

SIGI has done a terrific job outperforming its peers. There is an ETF by Invesco. It's ticker is KBWP and it is a property and casualty insurance ETF and 8.31% is in Chubb, 8.24% in Travelers, and then at #17 is SIGI at 3.36% weight. Take a look at how well SIGI has outperformed its direct peers in this ETF (which if you pulled SIGI out would make even more of a difference):

1 month: +4.85% vs. -1.83%

3 month: +0.38% vs. -5.32%

YTD: +9.6% vs. +1.62%

3 Year: +90.7% vs. +30.2%

5 Year: +153.7% vs. +70.4%

From a technical perspective, SIGI is trading around normal levels. Nothing overbought, nothing oversold when we look at the relative strength index, Bollinger bands, pivot points, money flow index, and Williams %.

As you can see, SIGI has done an outstanding job especially considering the turbulence we've had over the last 8 weeks. To be quite honest, at a $3.7B market cap it is something we can see easily getting bought out by a bigger player. Depending on your risk aversion you can add KBWP to the portfolio and still get exposure to SIGI or you can own it outright. If you're a big fan of Buffett, he's added about 3.5M of TRV to his portfolio last quarter. Right now hedge funds own about 1.8% of TRV stock vs. 0.8% in SIGI which could also mean more upside if institutions start to get involved.