

Exit Conduit Holdings: Relative value is down

Company:	Conduit Holdings (CRE)	Market Cap:	\$1.09bn
Industry:	Reinsurance	BSCR Solvency ratio:	381%
Country:	Bermuda	Revenue:	\$764mio*
Date:	2 nd November 2024	Net Income:	\$196mio*
Dividend:	-	Return on equity:	20%*
Entry:	\$1.06bn	Target:	\$1.08bn (+0%)

*annualized H1 24 results

Why exit Conduit Holdings?

- Hurricane season ended up being quite destructive and costly with Hurricane Helene and Milton together incurring an estimated \$34-50bn¹ in insured damage and total 2024 insured catastrophe damage expected to be above average at \$102bn by end of Q3 24²
- Damages seen largely not big enough to increase pricing for 2025 renewals with JP Morgan comparing the market to 2013³, when prior cycle peaked
- US listed competitors lost around 10% in market capitalization after Q3 results

The market cannot be ignored

When hurricane Helene approached, I remained relatively calm as it was expected not to hit a major city. However, this changed with hurricane Milton, as it was expected to hit Tampa. This has led me to exit Conduit ahead of the market reacting. When Milton missed Tampa by just a little bit, I was unsure why the market repriced to levels prior to hurricanes Helene and Milton despite still significant damage. The market's response was basically saying that it would help pricing for 2025. Hence, I re-entered and bought

¹ <https://www.artemis.bm/news/hurricane-helene-privately-insured-losses-estimated-8bn-to-14bn-by-moodys-rms/>, <https://www.artemis.bm/news/hurricane-milton-private-market-insured-losses-up-to-36bn-moodys-rms/>

² <https://www.artemis.bm/news/2024-insured-catastrophe-losses-likely-to-exceed-2023-already-above-102bn-aon/>

³ <https://www.artemis.bm/news/we-dont-see-milton-driving-a-reinsurance-market-turn-j-p-morgan/>

a smaller stake in Conduit. This was a mistake, as in all cases when I sell quickly, it is generally the correct decision. With Q3 2024 results coming in from competitors, all losing around 10% in market capitalization thereafter, while Conduit lost none, it led me to exit the position once again. It was a very hard decision, because Conduit is a growing reinsurer with a market leading capital ratio, which the market does not take into account at all. But the numbers simply made it less attractive...

The numbers are relatively straight-forward

To estimate the losses for Conduit incurred from hurricanes Helene and Milton in H2 2024, I used the \$50-65bn insured losses from hurricane Ian in 2022 (\$40mio loss for Conduit) and extrapolated it for the expected insured damage of \$34-50bn for hurricanes Helene and Milton. Then, I compared what Berkshire Hathaway⁴ and other reinsurers lost on hurricane Ian compared to losses from hurricane Helene and Milton. Whilst for Berkshire Hathaway hurricanes Helene and Milton came in around 60% of the losses hurricane Ian caused (but Berkshire pulled back from the market at mid-year renewals⁵), it was slightly higher for other reinsurers, such as Everest Re. Since Property underwriting increased by over 136% for Conduit between H1 2022 and H1 2024, I expect the costs for Conduit for hurricanes Helene and Milton to be around \$64-73mio ($\$40\text{mio} \times 236\% \times 34/50$ vs. $\$40\text{mio} \times 236\% \times 50/65$). Considering other hurricanes caused additional damage, I expect total profit for H2 2024 for Conduit to come in at \$20mio (I deduct \$80mio in expected loss damage from H1 2024's profit of \$100mio). A valuation of \$1.1bn compared to \$120mio net income and a very strong capital ratio would mean that Conduit remains valued at around TNAV and a 9x P/E. In comparison, US listed Everest Re is also trading at TNAV now with a 7.8x P/E based on 9M 2024 alone. My estimates are likely too pessimistic and \$140-150mio net income for FY 2024 seems more realistic given that in H1 2024 Conduit incurred \$20mio of losses from the Baltimore bridge collapse and due to the growth of the underwriting activity in other areas, which would result in a 7.3x P/E.



⁴ <https://www.berkshirehathaway.com/qtrly/3rdqtr24.pdf> ,
<https://www.berkshirehathaway.com/qtrly/3rdqtr22.pdf>

⁵ <https://www.artemis.bm/news/berkshire-hathaway-pegs-hurricane-milton-loss-at-1-3bn-1-5bn-helene-at-565m/>

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