Equity Research
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Financials

MBIA, Inc.

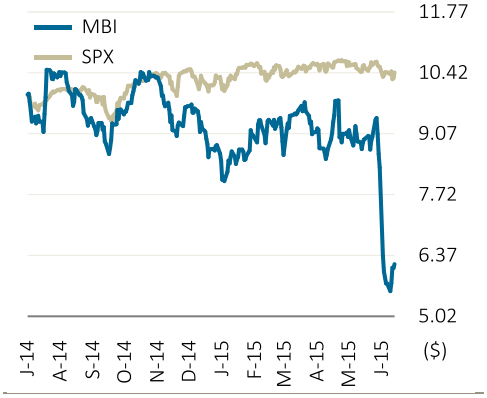
Stock Repurchase Program Drives Healthy Increase in MBI's 2Q15 Adjusted Book Value Per Share

While investors have been trying to gauge how much of MBIA's (MBI) book value may be at risk due to potential losses stemming from its insured exposure to Puerto Rico's debt, the company has been busy bolstering that metric on a per share basis through its stock repurchase program.

- MBI's share buybacks accelerated during 2Q15 as the company bought back 11.6mm shares at an average price of $8.76. As a consequence, MBI's adjusted book value (ABV) per share – the metric used by many investors to value the company – increased by $1.22 sequentially to $27.00. Based on that figure, MBI shares trade at less than 0.23x its ABV per share as of June 30, a level that we believe already reflects a severely dire outcome in Puerto Rico such that it has positive optionality to a somewhat more favorable result.
- **We are reiterating our Buy recommendation on MBI and price target of $10** based on 50% of the company's ABV per share of $27.00 adjusted for estimated losses of $6.35 per share related to the company's insured exposure to Puerto Rico's debt. We believe MBI's estimated excess capital of more than $1bn above the level required for it to maintain a 'AAA' level of capital under Standard & Poor's credit model provides it with a reasonable amount of cushion against anticipated losses.
- MBI, which has bought back almost 11% of its outstanding shares through the first half of the year, had $497mm in liquidity at its holding company as of June 30, down $70mm sequentially. That figure does not include $252mm of assets in MBI's tax escrow account.
- MBI earlier today reported 2Q15 operating income per share off $0.11, beating the consensus estimate of $0.09 and our estimate of $0.10.
- **Valuation:** Our $10 price target on MBI is based on 50% of the company's adjusted book value (ABV) per share of $27.00 adjusted for estimated losses of $6.35 per share related to the company's insured exposure to Puerto Rico's debt.

MBI	**$6.11**
12 month target	$10.00
Upside	63.7%
BUY	
52 week range	$5.58 - $10.49
Market Cap (m)	$1,117

Price Performance



Source: IDC

Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 A	3Q15 E	4Q15 E	FY15 E	FY16
Diluted EPS (Adj.)	1.32	0.45	0.80	0.11	3.02	0.37	0.36	0.07	0.06	0.92	-
Operating Income	256	120	173	20	569	69	63	12	11	155	-

Source: BTIG Research Estimates and Company Documents ($ in millions, except per share amount)

Source: Company Reach Estimates and Company Estimates

Income Statement

MBIA Operating Model ($ Millions)	Dec-11 2011A	Dec-12 2012A	Dec-13 2013A	Mar-14 1Q14A	Jun-14 2Q14A	Sep-14 3Q14A	Dec-14 4Q14A	Dec-14 2014A	Mar-15 1Q15A	Jun-15 2Q15A	Sep-15 3Q15E	Dec-15 4Q15E	Dec-15 2015E
Scheduled premiums earned	457.0	372.0	304.0	69.0	63.0	64.0	62.0	258.0	55.0	51.0	48.5	46.0	200.5
Refunding premiums earned	148.0	232.0	153.0	19.0	26.0	52.0	42.0	139.0	46.0	40.0	34.0	32.3	152.3
Total premiums earned	**605.0**	**604.0**	**457.0**	**88.0**	**89.0**	**116.0**	**104.0**	**397.0**	**101.0**	**91.0**	**82.5**	**78.3**	**352.8**
Net investment income	408.0	214.0	166.0	50.0	42.0	44.0	43.0	179.0	37.0	37.0	38.9	38.7	151.5
Fees and reimbursments	27.0	61.0	21.0	4.0	4.0	17.0	15.0	40.0	1.0	2.0	5.0	5.0	13.0
Realized gains (losses) and other settlements on insured derivatives	(2,370.0)	(406.0)	(1,545.0)	(369.0)	(24.0)	(24.0)	(27.0)	(444.0)	(9.0)	(3.0)	-	-	(12.0)
Unrealized losses on insured derivatives	(440.0)	1,870.0	1,777.0	838.0	(23.0)	48.0	40.0	903.0	37.0	63.0	-	-	100.0
Other than temporary impairments recognized in AOCI	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value of insured derivatives	**(2,810.0)**	**1,464.0**	**232.0**	**469.0**	**(47.0)**	**24.0**	**13.0**	**459.0**	**28.0**	**60.0**	**-**	**-**	**88.0**
Net gains (losses) on financial instruments at fair value and foreign exchange	(99.0)	55.0	69.0	(55.0)	61.0	57.0	15.0	78.0	30.0	45.0	-	-	75.0
Investment losses related to other-than-temporary impairments	(125.0)	(58.0)	13.0	-	-	(93.0)	(6.0)	(99.0)	-	(9.0)	-	-	(9.0)
Other-than-temporary impairments recognized in AOCI	24.0	(47.0)	15.0	-	-	79.0	5.0	84.0	-	2.0	-	-	2.0
Net investment losses related to other-than-temporary impairments	**(101.0)**	**(105.0)**	**28.0**	**-**	**-**	**(14.0)**	**(1.0)**	**(15.0)**	**-**	**(7.0)**	**-**	**-**	**(7.0)**
Other net realized gains (losses)	21.0	8.0	(28.0)	2.0	-	27.0	(3.0)	26.0	20.0	(1.0)	-	-	19.0
Revenues of consolidated VIEs													
Net investment income	73.0	67.0	43.0	12.0	13.0	12.0	13.0	50.0	12.0	13.0	12.9	12.9	50.8
Net gains (losses) on financial instruments at fair value and foreign exchange	40.0	18.0	160.0	3.0	23.0	8.0	16.0	50.0	(10.0)	6.0	-	-	(4.0)
Net gains (losses) on extinguishment of debt	280.0	49.0	61.0	4.0	2.0	-	-	6.0	-	(1.0)	-	-	(1.0)
Total revenues	**(1,556.0)**	**2,435.0**	**1,209.0**	**577.0**	**187.0**	**291.0**	**215.0**	**1,270.0**	**219.0**	**245.0**	**139.2**	**134.9**	**738.1**
Losses and loss adjustments	(81.0)	50.0	117.0	50.0	12.0	20.0	51.0	133.0	(6.0)	46.0	15.0	15.0	70.0
Amortization of deferred acquisition costs	64.0	50.0	46.0	10.0	8.0	13.0	13.0	44.0	13.0	13.0	12.9	12.7	51.6
Operating	309.0	382.0	327.0	46.0	49.0	46.0	54.0	195.0	35.0	32.0	31.7	31.4	130.0
Interest	300.0	283.0	236.0	54.0	52.0	52.0	52.0	210.0	50.0	50.0	48.5	47.0	195.5
Expenses of consolidated VIEs													
Operating	29.0	17.0	11.0	3.0	1.0	2.0	2.0	8.0	4.0	3.9	3.0	3.0	14.0
Interest	62.0	55.0	45.0	10.0	10.0	10.0	9.0	39.0	10.0	9.0	9.0	9.0	37.0
Total expenses	**683.0**	**837.0**	**782.0**	**173.0**	**132.0**	**143.0**	**181.0**	**629.0**	**106.0**	**153.9**	**120.1**	**118.2**	**498.2**
Pre-tax income	**(2,239.0)**	**1,598.0**	**427.0**	**404.0**	**55.0**	**148.0**	**34.0**	**641.0**	**113.0**	**91.1**	**19.1**	**16.7**	**239.9**
Provision (benefit) for income taxes	(920.0)	364.0	166.0	148.0	(65.0)	(25.0)	14.0	72.0	44.0	28.0	6.7	5.8	84.5
							0.4						
Net income	**(1,319.0)**	**1,234.0**	**261.0**	**256.0**	**120.0**	**173.0**	**20.0**	**569.0**	**69.0**	**63.1**	**12.4**	**10.8**	**155.4**
Diluted EPS	**(6.69)**	**6.33**	**1.35**	**1.32**	**0.45**	**0.80**	**0.11**	**3.02**	**0.37**	**0.36**	**0.07**	**0.06**	**0.92**
Diluted shares outstanding	197.02	194.90	193.92	190.03	192.91	188.42	188.27	188.27	182.74	173.20	171.20	169.20	169.20

Source: BTIG Research Estimates and Company Documents

Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company-Specific Regulatory Disclosures

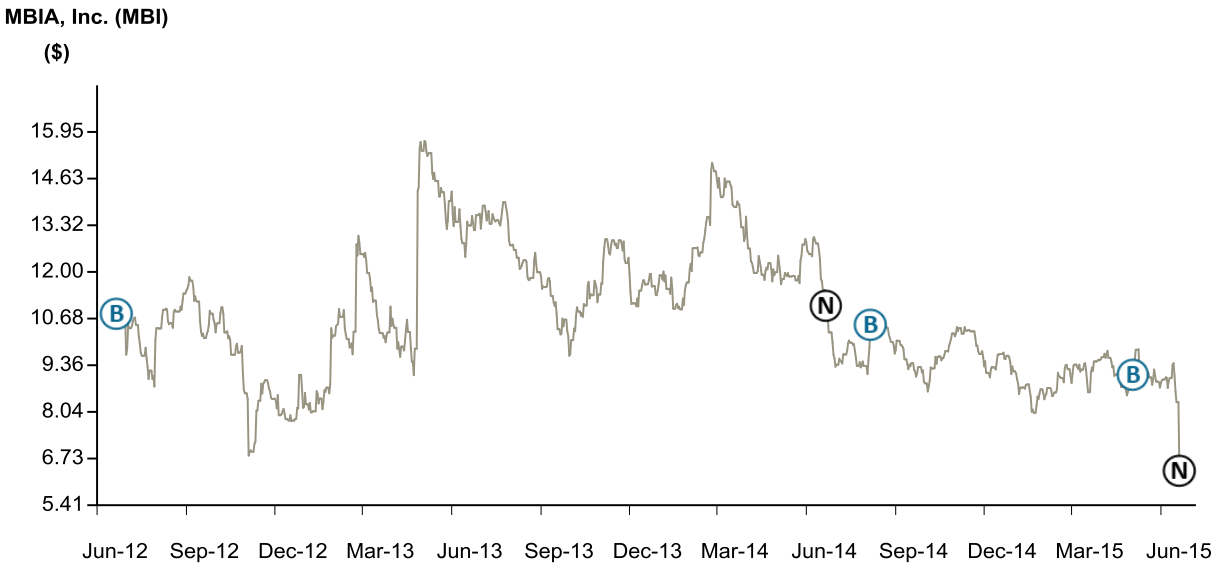
MBIA, Inc. (MBI)

Valuation

Our $10 price target on MBI is based on 50% of the company's adjusted book value (ABV) per share of $27.00 adjusted for estimated losses of $6.35 per share related to the company's insured exposure to Puerto Rico's debt.

Risks

The primary risks to our valuation include greater than expected losses with respect to insured exposure to Puerto Rico's debt. Increased losses on the broader insured municipal portfolio. The potential negative impact of a credit rating downgrade on ability to write new business.



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price ($)	Target Price ($)	Analyst	Rating
30-Nov-11	9.70	22.50	Mark Palmer	BUY
30-Jun-14	11.04		Mark Palmer	NEUTRAL
15-Aug-14	10.49	12	Mark Palmer	BUY
12-May-15	9.09	13	Mark Palmer	BUY
29-Jun-15	6.37		Mark Palmer	NEUTRAL
23-Jul-15	6.29	10	Mark Palmer	BUY

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