

## Equity Research

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## Financials

### MBIA, Inc.

#### MBI Further Boosts Adjusted Book Value Through Purchase of Shares Sold by Warburg Pincus

MBIA (MBI), which during 4Q14 began to repurchase its stock for the first time since before the financial crisis after authorizing \$200mm of buybacks in November, continued in that direction yesterday when it announced that National Public Finance Guarantee Corp., its municipal bond insurance unit, had agreed to purchase 8mm shares that had been held by a fund affiliated with private equity firm Warburg Pincus in a registered public offering.

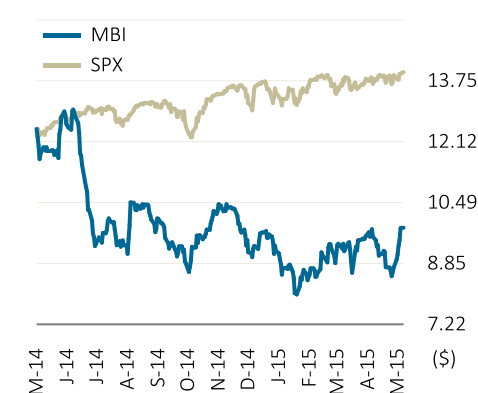
- Warburg Pincus as of May 14 held 47.5mm shares, or 26.2% of MBI's outstanding shares. We believe it is important to note that Warburg Pincus's stake in MBI represents its final position in a fund raised in 2007. Following the deal, the private equity firm will hold 18,372,877 shares in MBI and will continue to have two members on the company's board of directors.
- MBI told us it had opted to have National buy the shares given the unit's robust excess capital position. National CEO Bill Fallon has estimated that when Standard & Poor's releases its latest update of its capital model for the unit it likely will reveal that it has over \$1bn in excess capital above the amount required for it to maintain an 'AAA' level of capital.
- We are reiterating our Buy recommendation on MBI and price target of \$13** based on 0.50x the company's estimated ABV pro forma for the purchase of 8mm shares of \$26.75. With MBI shares trading at just 0.34x the company's estimated current consolidated adjusted book value (ABV), a fairly negative outcome for Puerto Rico's debt is already reflected in the stock price, in our view.
- The 8mm shares, which will be treated as treasury stock at National *(continued on page 2)*
- Valuation:** Our \$13 price target for MBI is based on 0.50x the company's adjusted book value per share of \$26.75 ABV pro forma for the 8mm shares repurchased in the transaction.

<b>MBI</b>	<b>\$9.22</b>
12 month target	\$13.00
Upside	40.9%

### BUY

52 week range	\$8.02 - \$12.98
Market Cap (m)	\$1,751

#### Price Performance



Source: IDC

## Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16
Diluted EPS (Adj.)	1.32	0.45	0.80	0.11	3.02	0.37	0.10	0.10	0.09	0.68	-
Operating Income	256	120	173	20	569	69	18	17	15	120	-

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

**Please Read: Important disclosures and analyst's certification appear in Appendix**

*(continued from page 1)*

and thus eliminated under GAAP accounting, will boost MBI's consolidated ABV, the metric by which it is valued by many investors. Based on MBI's disclosures in its 1Q15 earnings report that it bought back 1.9mm shares at a price of \$9.15 (between March 31 and May 5, 2015), we estimate that its ABV as of May 5 was \$25.95. The company's purchase of the 8mm shares increases its ABV per share by approximately \$0.80 to \$26.75.

## Income Statement

MBIA Operating Model (\$ Millions)	Dec-11 2011A	Dec-12 2012A	Dec-13 2013A	Mar-14 1Q14A	Jun-14 2Q14E	Sep-14 3Q14A	Dec-14 4Q14A	Dec-14 2014A	Mar-15 1Q15A	Jun-15 2Q15E	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	52.3	49.6	47.2	204.0
Refunding premiums earned	148.0	232.0	153.0	19.0	26.0	52.0	42.0	139.0	46.0	42.6	40.4	38.4	167.4
<b>Total premiums earned</b>	<b>605.0</b>	<b>604.0</b>	<b>457.0</b>	<b>88.0</b>	<b>89.0</b>	<b>116.0</b>	<b>104.0</b>	<b>397.0</b>	<b>101.0</b>	<b>94.8</b>	<b>90.1</b>	<b>85.6</b>	<b>371.4</b>
Net investment income	408.0	214.0	166.0	50.0	42.0	44.0	43.0	179.0	37.0	38.9	40.8	40.6	157.2
Fees and reimbursements	27.0	61.0	21.0	4.0	4.0	17.0	15.0	40.0	1.0	5.0	5.0	5.0	16.0
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)	-	-	-	(9.0)
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	-	-	-	37.0
Other than temporary impairments recognized in AOCI	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net change in fair value of insured derivatives</b>	<b>(2,810.0)</b>	<b>1,464.0</b>	<b>232.0</b>	<b>469.0</b>	<b>(47.0)</b>	<b>24.0</b>	<b>13.0</b>	<b>459.0</b>	<b>28.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28.0</b>
<b>Net gains (losses) on financial instruments at fair value and foreign exchange</b>	<b>(99.0)</b>	<b>55.0</b>	<b>69.0</b>	<b>(55.0)</b>	<b>61.0</b>	<b>57.0</b>	<b>15.0</b>	<b>78.0</b>	<b>30.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30.0</b>
Investment losses related to other-than-temporary impairments	(125.0)	(58.0)	13.0	-	-	(93.0)	(6.0)	(99.0)	-	-	-	-	-
Other-than-temporary impairments recognized in AOCI	24.0	(47.0)	15.0	-	-	79.0	5.0	84.0	-	-	-	-	-
<b>Net investment losses related to other-than-temporary impairments</b>	<b>(101.0)</b>	<b>(105.0)</b>	<b>28.0</b>	<b>-</b>	<b>-</b>	<b>(14.0)</b>	<b>(1.0)</b>	<b>(15.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other net realized gains (losses)	21.0	8.0	(28.0)	2.0	-	27.0	(3.0)	26.0	20.0	-	-	-	20.0
<i>Revenues of consolidated VIEs</i>													
Net investment income	73.0	67.0	43.0	12.0	13.0	12.0	13.0	50.0	12.0	11.9	11.9	11.8	47.6
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)	-	-	-	(10.0)
Net gains (losses) on extinguishment of debt	280.0	49.0	61.0	4.0	2.0	-	-	6.0	-	-	-	-	-
<b>Total revenues</b>	<b>(1,556.0)</b>	<b>2,435.0</b>	<b>1,209.0</b>	<b>577.0</b>	<b>187.0</b>	<b>291.0</b>	<b>215.0</b>	<b>1,270.0</b>	<b>219.0</b>	<b>150.6</b>	<b>147.7</b>	<b>143.0</b>	<b>660.3</b>
Losses and loss adjustments	(81.0)	50.0	117.0	50.0	12.0	20.0	51.0	133.0	(6.0)	15.0	15.0	15.0	39.0
Amortization of deferred acquisition costs	64.0	50.0	46.0	10.0	8.0	13.0	13.0	44.0	13.0	12.9	12.7	12.6	51.2
Operating	309.0	382.0	327.0	46.0	49.0	46.0	54.0	195.0	35.0	34.7	34.3	34.0	137.9
Interest	300.0	283.0	236.0	54.0	52.0	52.0	52.0	210.0	50.0	48.5	47.0	45.6	191.2
Expenses of consolidated VIEs													
Operating	29.0	17.0	11.0	3.0	1.0	2.0	2.0	8.0	4.0	3.0	3.0	3.0	13.1
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
<b>Total expenses</b>	<b>683.0</b>	<b>837.0</b>	<b>782.0</b>	<b>173.0</b>	<b>132.0</b>	<b>143.0</b>	<b>181.0</b>	<b>629.0</b>	<b>106.0</b>	<b>123.1</b>	<b>121.1</b>	<b>119.2</b>	<b>469.4</b>
<b>Pre-tax income</b>	<b>(2,239.0)</b>	<b>1,598.0</b>	<b>427.0</b>	<b>404.0</b>	<b>55.0</b>	<b>148.0</b>	<b>34.0</b>	<b>641.0</b>	<b>113.0</b>	<b>27.5</b>	<b>26.6</b>	<b>23.7</b>	<b>190.9</b>
Provision (benefit) for income taxes	(920.0)	364.0	166.0	148.0	(65.0)	(25.0)	14.0	72.0	44.0	9.6	9.3	8.3	71.2
<b>Net income</b>	<b>(1,319.0)</b>	<b>1,234.0</b>	<b>261.0</b>	<b>256.0</b>	<b>120.0</b>	<b>173.0</b>	<b>20.0</b>	<b>569.0</b>	<b>69.0</b>	<b>17.9</b>	<b>17.3</b>	<b>15.4</b>	<b>119.6</b>
<b>Diluted EPS</b>	<b>(6.69)</b>	<b>6.33</b>	<b>1.35</b>	<b>1.32</b>	<b>0.45</b>	<b>0.80</b>	<b>0.11</b>	<b>3.02</b>	<b>0.37</b>	<b>0.10</b>	<b>0.10</b>	<b>0.09</b>	<b>0.68</b>
Diluted shares outstanding	197.02	194.90	193.92	190.03	192.91	188.42	188.27	188.27	182.74	177.27	176.27	175.27	175.27

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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### MBIA, Inc. (MBI)

#### Valuation

Our \$13 price target for MBI is based on 0.50x the company's adjusted book value per share of \$26.75 ABV pro forma for the 8mm shares repurchased in the transaction.

#### Risks

The primary risks to our recommendation include potential deterioration related to structured-product insurance exposures and municipal-bond insurance exposures.

### MBIA, Inc. (MBI)

(\$)



*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

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