Dividend Ideas | Financials | Germany

Munich Re Is One Of The Best 5% Yielding Blue-Chips You've Never Heard Of

Apr. 24, 2022 7:00 AM ET | **Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (MURGF)**, **MURGY** | 20 Comments | 12 Likes

Brad Thomas
Marketplace

Summary

- Munich Re is the world's largest reinsurance company by premiums.
- Munich Re might never become a dividend aristocrat, but it's most definitely a safe of safe and steadily rising income.
- If you're looking for a great high-yield way to sleep well at night and potentially retire in safety and splendor, consider Munich Re.
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This article was co-produced with Dividend Sensei.

We love pointing out wonderful companies trading at reasonable to attractive valuations.

We love pointing out high-yield blue-chips even more.

And when we can highlight a hidden gem blue-chip that iREIT and DK members have probably never heard of, well that's just the icing on the cake.

Dividend Sensei recently recommended and bought **Munich Re** (OTCPK:MURGY) (OTCPK:MURGF) for his retirement portfolio.

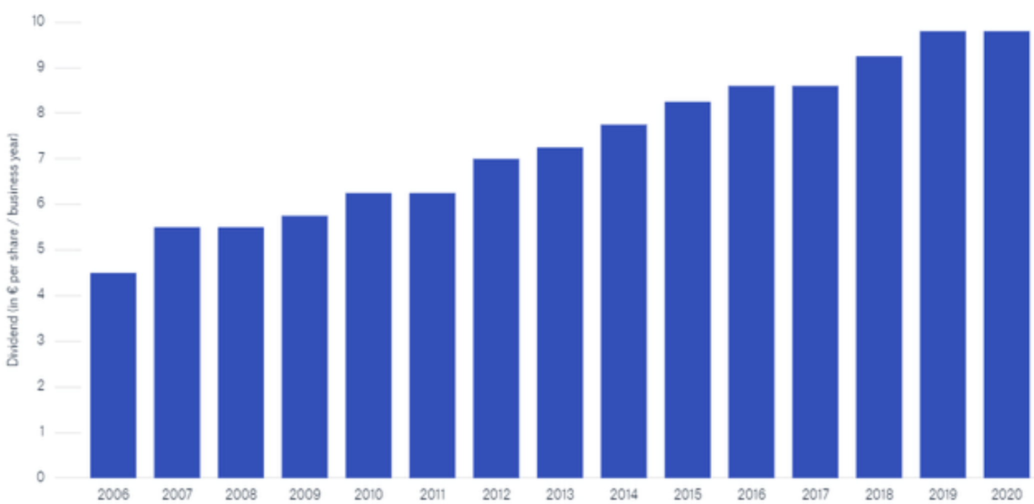
Why?

Reasons To Potentially Buy Munich Re

- 82% quality low-risk 12/13 Super SWAN reinsurance giant
- 4.7% very safe yield (85% safety score)
- 1-year dividend growth streak

The dividend at a glance

Munich Re's Annual General Meeting on 28 April 2021 voted to distribute a dividend of € 9.80 per share for the business year 2020 to the shareholders. In relation to the 2020 year-end share price the dividend yield is equal to 4.0 percent. The dividend notice can be found in the section "Annual General Meeting 2021".



Business year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Dividend (in €/Share)	4.50	5.50	5.50	5.75	6.25	6.25	7.00	7.25	7.75	8.25	8.60	8.60	9.25	9.80	9.80

Munich RE

- Munich Re has a progressive dividend policy (no dividend cuts and the dividend goes up almost every year)
- the same policy as Canadian banks and Allianz (OTCPK:ALIZY)
- 0.5% average recession dividend cut risk
- 1.8% severe recession dividend cut risk

14% conservatively undervalued (potential good buy)

Fair Value: $30.23 (10.9X earnings)

9.4X forward earnings vs. 13 to 14.5X historical

AA- stable outlook credit rating = 0.55% 30-year bankruptcy risk

75th industry percentile risk management consensus = good

8% to 14% CAGR margin-of-error growth consensus range

8% to 12.5% individual analyst growth consensus range

10.2% CAGR median growth consensus

management guidance: 5+%

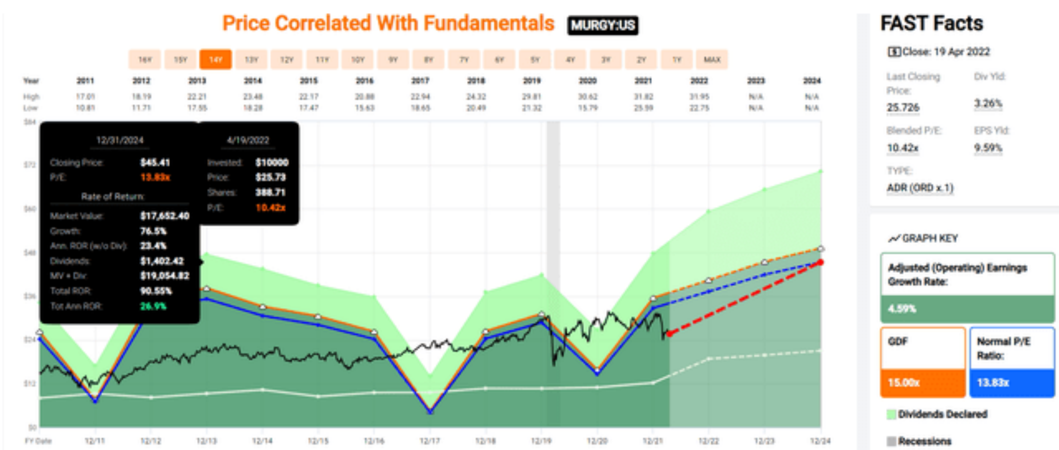
5-year consensus total return potential: 13% to 21% CAGR

base-case 5-year consensus return potential: 18% CAGR (4X S&P consensus)

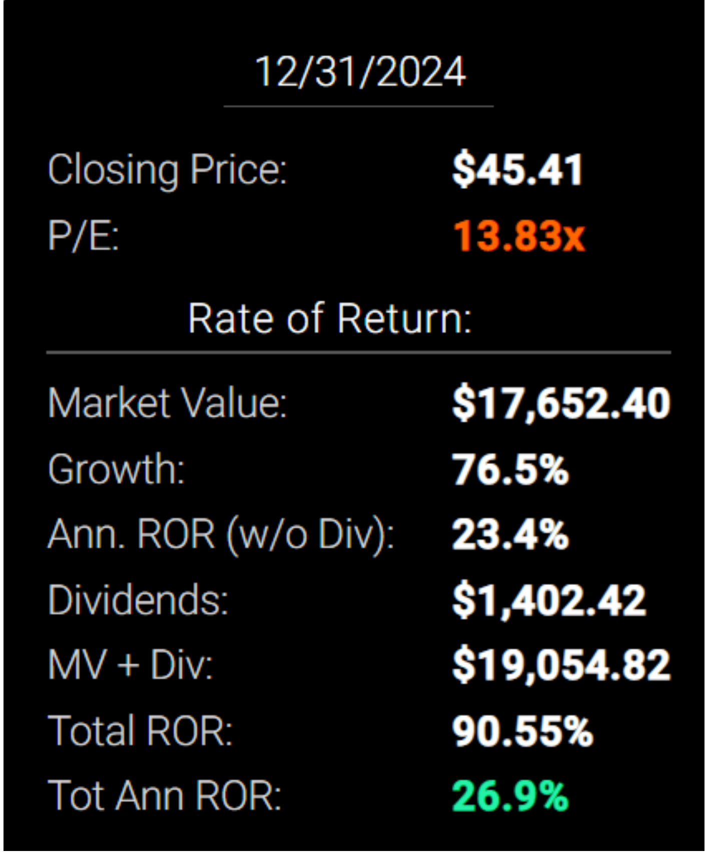
consensus 12-month total return forecast: 27% (10.1X, very reasonable)

Fundamentally justified 12-month returns: 21% CAGR

MURGY 2024 Consensus Total Return Potential



Fast Graphs

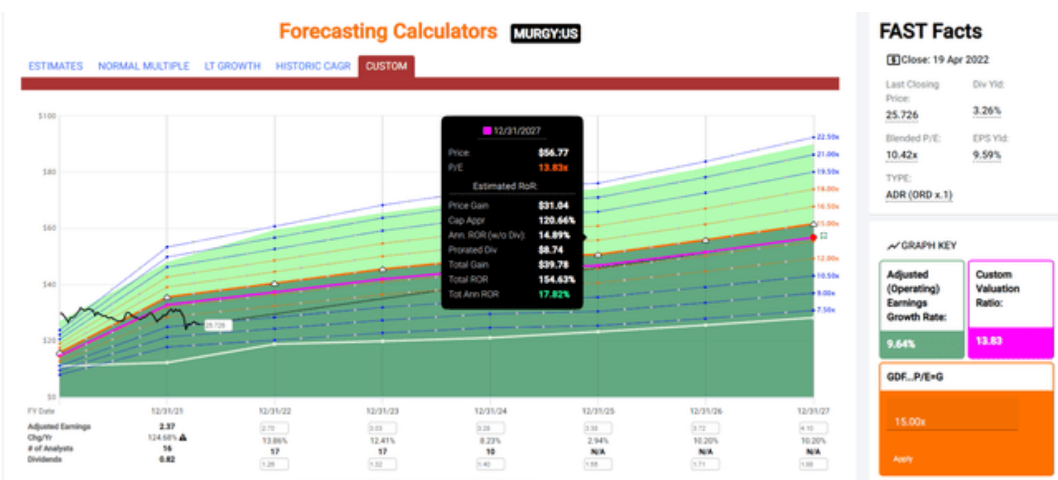


FAST Graphs

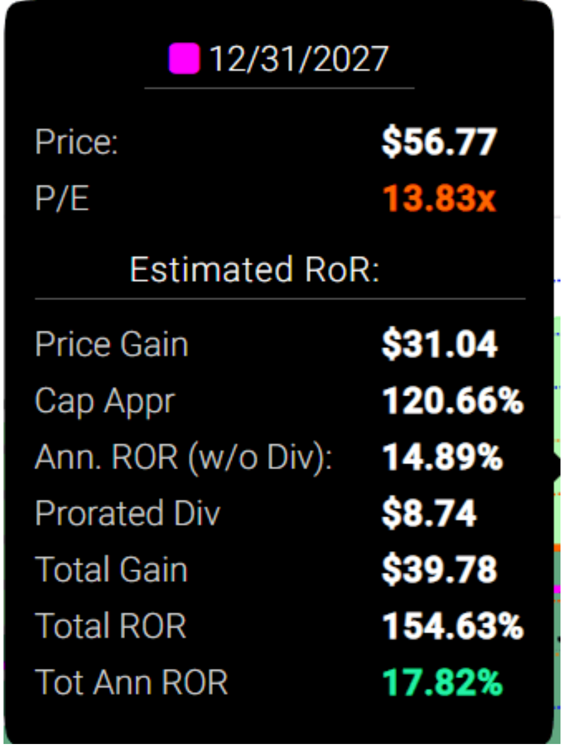
If MURGY grows as analysts expect by 2024, it could deliver 91% total returns, or 27% annually.

Buffett-like returns from an anti-bubble blue-chip bargain hiding in plain sight

MURGY 2027 Consensus Total Return Potential



Fast Graphs



Fast Graphs

By 2027 if MURGY grows as expected and returns to historical fair value, it could more than double and deliver 18% annual total returns.

- also Buffett-like returns
- 4X the S&P 500 consensus

So let me show you in greater detail the three reasons why the safety king of its industry is one of the best 4.7% yielding blue-chips you've never heard of.

Reason One: World-Class Quality You Can Trust In All Economic Environments

There are many ways to define and measure quality. So how do I do it?

The Dividend King's overall quality scores are based on a 248 point model that includes:

- dividend safety
- balance sheet strength
- credit ratings
- credit default swap medium-term bankruptcy risk data
- short and long-term bankruptcy risk
- accounting and corporate fraud risk
- profitability and business model
- growth consensus estimates

- management growth guidance
- historical earnings growth rates
- historical cash flow growth rates
- historical dividend growth rates
- historical sales growth rates
- cost of capital
- GF Scores
- long-term risk-management scores from MSCI, Morningstar, FactSet, S&P, Reuters/Refinitiv, and Just Capital
- management quality
- dividend friendly corporate culture/income dependability
- long-term total returns (a Ben Graham sign of quality)
- analyst consensus long-term return potential

In fact, it includes over 1,000 fundamental metrics including the 12 rating agencies we use to assess fundamental risk.

- credit and risk management ratings make up 41% of the DK safety and quality model
- dividend/balance sheet/risk ratings make up 82% of the DK safety and quality model

How do we know that our safety and quality model works well?

During the two worst recessions in 75 years, our safety model 87% of blue-chip dividend cuts, the ultimate baptism by fire for any dividend safety model.

And then there's the confirmation that our quality ratings are very accurate.

DK Zen Phoenix: Superior Fundamentals Lead To Superior Long-Term Results

Metric	US Stocks	191 Real Money DK Phoenix Recs
Great Recession Dividend Growth	-25%	0%
Pandemic Dividend Growth	-1%	6%
Positive Total Returns Over The Last 10 Years	42%	99.5% (Greatest Investors In History 60% to 80% Over Time)
Lost Money/Went Bankrupt Over The Last 10 Years	47%	0.5%
Outperformed Market Over The Last Decade (290%)	36%	46%
Bankruptcies Over The Last 10 Years	11%	0%
Permanent 70+% Catastrophic Decline Since 1980	44%	0.5%
100+% Total Return Over The Past 10 Years	NA	87%
200+% Total Return Over The Past 10 Years	NA	66%
300+% Total Return Over The Past 10 Years	NA	44%
400+% Total Return Over The Past 10 Years	NA	35%
500+% Total Return Over The Past 10 Years	NA	27%
600+% Total Return Over The Past 10 Years	NA	23%
700+% Total Return Over The Past 10 Years	NA	20%
800+% Total Return Over The Past 10 Years	NA	18%
900+% Total Return Over The Past 10 Years	NA	18%
1000+% Total Return Over The Past 10 Years	NA	16%
Sources: Morningstar, JPMorgan, Seeking Alpha		

Basically, historical market data confirms that the DK safety and quality model is comprehensive and accurate.

How does MURGY score on the comprehensive and accurate safety model?

MURGY Dividend Safety

Rating	Dividend Kings Safety Score (156 Point Safety Model)	Approximate Dividend Cut Risk (Average Recession)	Approximate Dividend Cut Risk In Pandemic Level Recession
1 - unsafe	0% to 20%	over 4%	16+%
2- below average	21% to 40%	over 2%	8% to 16%
3 - average	41% to 60%	2%	4% to 8%
4 - safe	61% to 80%	1%	2% to 4%
5- very safe	81% to 100%	0.5%	1% to 2%
MURGY	85%	0.50%	1.80%
Risk Rating	Low-Risk (75th industry percentile risk-management consensus) - speculative	AA- Stable outlook credit rating 0.55% 30-year bankruptcy risk	20% OR LESS Max Risk Cap Recommendation

Long-Term Dependability

Company	DK Long-Term Dependability Score	Interpretation	Points
Non-Dependable Companies	21% or below	Poor Dependability	1
Low Dependability Companies	22% to 60%	Below-Average Dependability	2
S&P 500/Industry Average	61% (61% to 70% range)	Average Dependability	3
Above-Average	71% to 80%	Very Dependable	4
Very Good	81% or higher	Exceptional Dependability	5
MURGY	82%	Exceptional Dependability	5

Overall Quality

MURGY	Final Score	Rating
Safety	85%	5/5 very safe
Business Model	60%	2/3 above-average
Dependability	82%	5/5 exceptional
Total	82%	12/13 Super SWAN
Risk Rating	3/3 Low Risk	
15% OR LESS Max Risk Cap Rec	10% Margin of Safety For A Potentially Good Buy	

MURGY: 180th Highest Quality Master List Company (Out of 506) = 64th Percentile

The DK 500 Master List includes the world's highest quality companies including:

- All dividend champions
- All dividend aristocrats
- All dividend kings
- All global aristocrats (such as BTI, ENB, and NVS)
- All 13/13 Ultra Swans (as close to perfect quality as exists on Wall Street)
- 49 of the world's best growth stocks

MURGY's 82% quality score means it's similar in quality to such blue-chips as

- Amgen (AMGN)
- Salesforce (CRM)
- Honeywell (HON)
- Intuit (INTU)
- AvalonBay Communities (AVB)
- Federal Realty Investment Trust (FRT) - dividend king
- Consolidated Edison (ED) - dividend aristocrat

Even among the world's highest quality companies, MURGY is of higher quality than 64% of them.

Why Retirees Can Trust Munich Re

Munich Re is the world's largest reinsurance company.

> *"Munich Re Is Still Probably the Safest Pair of Hands in Reinsurance" - Morningstar*
>
> *"Munich Re: My Favorite, More Conservative Reinsurer" - Sebastian Wolf*

Many analysts consider MURGY to potentially be the world's safest reinsurance company and credit rating agencies agree.

Rating Agency	Credit Rating	30-Year Default/Bankruptcy Risk	Chance of Losing 100% Of Your Investment 1 In
S&P	AA- Stable	0.55%	181.8
Fitch	AA- Stable	0.55%	181.8
Moody's	Aa3 (AA- equivalent) Stable	0.55%	181.8
AM Best	A+ Stable	0.60%	166.7
Consensus	AA- Stable	0.56%	177.8

(Sources: S&P, Fitch, Moody's, AM Best)

In fact, rating agencies estimate the chance of MURGY going bankrupt over the next 30 years (it's fundamental risk for investors) at just 0.56% or 1 in 178.

MURGY was founded in 1880 by the king of Bavaria. Over that time it's survived and thrived through

- two world wars
- the worst pandemic in human history (which killed 5% of humanity)
- dozens of recessions
- several depressions
- inflation as high as 327,803.49% per year (115 trillion fold increase in prices over 4 years)

In other words, MURGY is built to last and will likely outlive us all.

> *"**The company became famous after the San Francisco Earthquake in 1906, as it was the only insurer that remained fully solvent after paying out all claims, around 15.5M marks at the time**...*
>
> *Warren Buffett is a prominent shareholder of Munich Re. It was once his biggest holding, and now he owns around 3% of the business...*
>
> *Both Allianz and Munich Re are located in München - even on the same street - and are often considered to be sister companies. The two businesses have had a cross-25% shareholding in their various businesses and operate with extensive connections, common subsidiaries, and operations that have been slowly unwinding over the past decade or so." - Sebastian Wolf*

Rating agencies consider ALIZY to be one of the safest insurance companies in the world, so it's very reassuring that ALIZY owns 25% of MURGY's businesses.

- Allianz: The World's Best Insurance Company Is A 5% Yielding Good Buy

MURGY is a highly diversified company.

- 43% property reinsurance
- 24% life and health insurance
- 12% life and health reinsurance
- 24% of sales from Germany
- 27% from the US
- 12% from the UK
- 38% from the rest of the world

The combined ratio is insurance claims + expenses/premiums collected.

- under 100% = profitable policies and conservative underwriting

- MURGY's combined ratio since 2011 has averaged 90.8%
- despite major disaster years such as 2011, 2017, and the pandemic
- analysts expect 94% to be the long-term average
- meaning 6% profitability on policies + portfolio float investment (2.4% to 2.5% investment yield)

> *Munich Re has made a history of performing well when competitors have been down or posted losses, thanks to titanium-clad underwriting standards and safeties. It's what allowed them to post a near €3B net profit during the financial crisis. Most European peers, including Swiss Re (OTCPK:SSREY) and Hannover Re (OTCPK:HVRRY), posted losses in 2008. The company repeated this feat during COVID-19, posting a €1B net profit during a time when most reinsurance companies were suffering massively due to a global pandemic...*
>
> *It's by far the most conservative reinsurance shop on the planet, in terms of its underwriting, history, and fundamentals. No national or international peers come close." - Sebastian Wolf (emphasis original)*

MURGY's underwriting is the stuff of industry legend.

- they are the JPMorgan of reinsurance
- JPMorgan was one of the few banks to sail through the Financial Crisis with profitability and was never at risk of collapse

> *“Munich operates a flexible dividend policy, preferring to try and increase the dividend over the one delivered to shareholders in the prior year.* ***The last time Munich Re lowered its dividend was in 1970****. It seems to us that management operates broadly with an approximate 50% payout policy. Instead of committing to a regular and high payout ratio, Munich Re operates a flexible share-buyback policy. In more stressful times, as in 2020, the EUR 1.0 billion annual buyback was suspended." - Morningstar*

MURGY might never become a dividend aristocrat, but it's most definitely a safe of safe and steadily rising income.

- it hasn't cut its dividend in 52 years

Management's goal is to grow at over 5% over time and grow the dividend at the same rate as earnings.

The board of directors has adopted a progressive dividend policy that makes never cutting the dividend the priority over buybacks.

- buybacks are used to soak up excess capital in the good times
- and scaling back buybacks protects the dividend in tough times

Management thinks it can average 13% long-term returns on equity.

- 8.7% is the median ROE for this industry

The solvency ratio in insurance is the market value of all assets - liabilities.

100% is the global regulatory minimum and MURGY's goal is to average double the regulatory requirement.

- MURGY finished 2021 with a solvency ratio of 227% including the new higher dividend

MURGY is prepared for a low-interest rate world to continue forever, with various plans to maximize safe net yield on its portfolio.

- interest rates around the world are now rising at their fastest rate in 40 years
- Citigroup thinks the European Central Bank will raise short-term rates by 2.5% through 2023
- German bond yields are soaring to their highest levels in a decade

Germany's 30-year bund was yielding negative rates in mid-2020 and is now yielding over 1%.

And the fastest inflation in EU history (7.5% and climbing) has economists expecting tailwinds for German insurance companies.

In fact, the FactSet economist consensus is that German 10-year yields will double by the end of 2024.

- insurance companies effectively borrow at zero or negative rates
- because they fund their investments with float
- so rising rates are a major benefit for insurance companies

Management has a plan for ERGO, MURGY's insurance operations, to generate see steadily improving profitability, with the combined ratio in Germany falling from 92.4% in 2020 (pandemic year) to 90% by 2025.

- 10% underwriting profits are very good profitability for this industry

Its international health and life insurance operations are expected to see the combined ratio fall from 92.7% to 91%.

Rating agencies consider 20% to be a safe level for debt/capital. MURGY is running at 15%, even in the pandemic, when claims soared.

MURGY's solvency ratio has never fallen below 208% in the last five years. And in Q4 it hit 231%. MURGY finished 2021 with $50.6 billion in marketable assets vs $22.3 billion in liabilities.

- $28.3 billion in excess capital reserves

For context, Berkshire (BRK.A) (BRK.B) keeps $20 billion in reserve for its insurance operations.

MURGY has $5.8 billion in debt and 93% of its bonds are denominated in euros and pounds, where interest rates are much lower than in the US.

70% of its bonds mature in 20+ years, locking in the company's profitability for decades.

MURGY has some of the world's best risk models and estimates that no realistic catastrophe could drive its solvency ratio below 200%.

- once in a 200 year Atlantic hurricane could drop it to 200% from 227%

- a 30% global stock market crash would drop it to 217%
- a 1% increase in inflation would leave it untouched at 227%
- interest rates falling 0.5% (such as during a recession) would reduce it to 217%

MURGY's float is invested in a $274 billion portfolio that's

- 55% bonds
- 26% loans
- 8% alternative assets
- 7% stocks
- 5% real estate
- 1% derivatives

The bond portfolio is 65% risk-free sovereign debt.

41% of the loans are to governments.

Another 37% of loans are securitized.

39% of its alternative assets are in deposits on reinsurance and 14% are bank deposits.

- 26% German bonds
- 16% US
- 7% France
- 5% Canada
- 5% UK
- 5% Dutch
- 4% Australian
- 4% EU
- 3% Spanish
- 3% Irish
- 3% Austrian
- 3% Belgian
- 2% Luxembourg
- 2% Polish

- 1% Italian
- 15% other

How safe is MURGY's bond portfolio?

- 42% is AAA rated 0.07% default risk
- 23% AA 0.51% default risk
- 13% BBB 7.5% default risk
- 10% junk bonds or non-rated

Of that 10%

- 4% BB 17% default risk
- less than 1% B or less (37+% default risk)
- 5% not rated

The corporate bonds are highly diversified across every industry with no more than 14% exposure to any single industry.

- 14% industrials
- 14% utilities
- 10% oil & gas
- 9% financials
- 8% telecoms
- 7% healthcare
- 5% tech
- 4% auto
- 4% travel and leisure
- 4% food
- 4% construction
- 4% real estate
- 3% consumer staples
- 11% other

92% of its corporate bond are senior, and just 2% are currently generating losses.

MRUGY uses hedging to minimize its exposure to interest rates, credit market swings, and stock market volatility.

- a 1% increase in EU yields is a 0.2% decrease in profits
- a 0.5% decrease in yields is a 0.1% increase in profits
- a 30% gain in stocks is a 0.1% decrease in profits
- a 30% decrease in stocks is a 0.6% decrease in profits

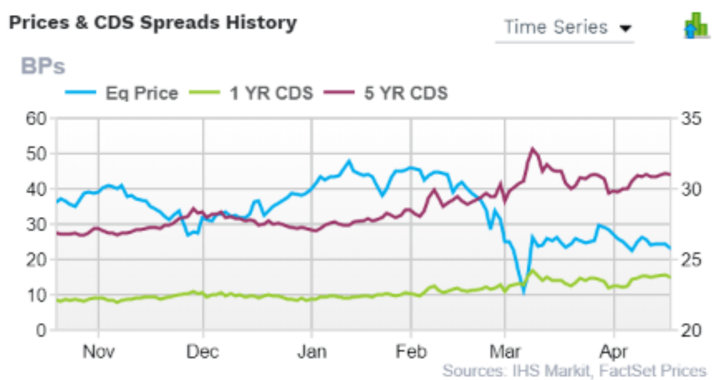
Basically, MURGY is risk-management done right, in the reinsurance industry.

MURGY Credit Default Swaps: Bond Market's Real-Time Fundamental Risk-Assessment

CDS Spreads

		% Change				
	Latest (bps)	1D	1W	1Mo	3Mo	6Mo
1 Year	15.71	5.9	4.6	19.6	67.6	89.9
2 Year	22.18	5.2	3.2	20.3	68.5	82.0
3 Year	29.78	4.2	3.7	15.8	56.5	76.6
5 Year	45.18	2.6	4.3	10.5	46.6	65.4
7 Year	53.60	2.0	4.3	8.9	36.1	53.6
10 Year	63.23	1.9	3.6	8.1	31.5	45.7

Source: IHS Markit



FactSet

Credit default swaps are insurance policies bond investors take out against default.

- the bond market's real-time estimate of fundamental risk
- very useful when headlines are scary and stock prices are crashing
- MURGY's fundamental risk has risen somewhat after the invasion of Ukraine
- but still low on an absolute basis and consistent with A- positive outlook credit ratings
- when the stock price is crashing but the fundamental risk remains stable you can buy with more confidence
- analysts, rating agencies, and the bond market are all confirming MURGY's investment thesis remains intact

MURGY Profitability: Wall Street's Favorite Quality Proxy

MURGY historical has above-average profitability, in the top 40% of peers.

In 2021 they were impacted by pandemic-related expenses (excess deaths) and various global catastrophes.

MURGY Trailing 12-Month Profitability Vs Peers

Metric	Industry Percentile	Major Insurance Companies More Profitable Than MURGY (Out Of 499)
Operating Margin	NA	NA
Net Margin	38.59	303
Return On Equity	55.06	222
Return On Assets	36.27	315
Return On Capital	NA	NA
Average	43.31	280

(Source: Gurufocus Premium)

MURGY's profitability fell to the 43rd percentile during the pandemic, but analysts are confident that profitability will spring back quickly once this crisis passes.

MURGY has had relatively stale profitability for the last 20 years, confirming a narrow and stable moat.

MURGY Profit Margin Consensus Forecast

Year	FCF Margin	EBIT (Operating) Margin	Net Margin
2020	-0.4%	3.6%	4.9%
2021	2.9%	5.9%	5.4%
2022	3.4%	7.2%	6.1%
2023	2.8%	7.9%	6.1%
2024	0.5%	8.3%	6.1%
2025	NA	8.5%	6.7%
2026	NA	8.5%	NA
Annualized Growth	NA	15.61%	6.23%
Annualized Growth (Ignoring Pandemic)	-45.64%	7.65%	5.68%

(Source: FactSet Research Terminal)

Free cash flow in the reinsurance business is extremely volatile. What is more important is that margins are expected to increase steadily over time.

despite numerous headwinds in the industry that management is successfully addressing

MURGY Dividend Consensus Forecast

Year	Dividend Consensus	EPS/Share Consensus	EPS Payout Ratio	Retained (Post-Dividend) Earnings	Buyback Potential
2022	$1.26	$2.63	47.9%	$1,919	5.68%
2023	$1.33	$3.07	43.3%	$2,438	7.21%
2024	$1.41	$3.27	43.1%	$2,606	7.71%
2025	$1.46	$3.38	43.2%	$2,690	7.95%
2026	$1.52	$3.50	43.4%	$2,774	8.20%
Total 2022 Through 2026	$6.98	$15.85	44.0%	$7,733.52	22.87%
Annualized Rate	4.80%	7.41%	-2.42%	9.64%	9.64%

(Source: FactSet Research Terminal)

50% is the safe payout ratio for insurance companies according to rating agencies and that's management's long-term payout ratio policy.

Analysts expect MURGY to maintain a 45% or so payout ratio over time, that over time, allowing it to grow the dividend about 5% annually while retaining almost $8 billion in post-dividend earnings over the next five years.

That's enough to potentially buy back 23% of its shares at current valuations.

MURGY Buyback Consensus Forecast

Year	Consensus Buybacks ($ Millions)	% Of Shares (At Current Valuations)	Market Cap
2022	$1,132.0	3.3%	$33,820
2023	$1,132.0	3.3%	$33,820
Total 2022-2023	$2,264.00	6.7%	$33,820
Annualized Rate	3.41%	Average Annual Buybacks	$1,132.00

(Source: FactSet Research Terminal)

Analysts expect $2.3 billion in buybacks in the next two years or a 3% to 4% annual reduction in share count.

MURGY began buyback back shares in 20106 and has averaged a net rate of 3.2% annually since then.

Time Frame (Years)	Net Buyback Rate	Shares Remaining	Net Shares Repurchased	Each Share You Own Is Worth X Times More (Not Including Future Growth And Dividends)
5	3.2%	84.99%	15.01%	1.18
10	3.2%	72.24%	27.76%	1.38
15	3.2%	61.39%	38.61%	1.63
20	3.2%	52.18%	47.82%	1.92
25	3.2%	44.35%	55.65%	2.25
30	3.2%	37.69%	62.31%	2.65

(Source: FactSet Research Terminal)

That might not sound impressive but it adds up over time.

In the next decade alone MURGY could reduce its share count by 28% and over the next 30 years potentially 62%.

> which would nearly triple the intrinsic value of your shares
>
> not counting any future earnings or dividend growth

Reason Two: Solid Growth Prospects For Decades To Come

MURGY Medium-Term Consensus Forecast

Year	Sales	Free Cash Flow	EBIT (Operating Income)	Net Income
2020	$67,098	-$274	$2,398	$3,320
2021	$67,457	$1,931	$3,982	$3,619
2022	$67,489	$2,261	$4,858	$4,096
2023	$69,846	$1,960	$5,525	$4,286
2024	$69,166	$318	$5,722	$4,216
2025	$64,954	NA	$5,494	$4,347
2026	$66,303	NA	$5,659	NA
Annualized Growth	-0.20%	NA	15.38%	5.54%
Annualized Growth (Ignoring Pandemic)	-0.34%	-45.19%	7.28%	4.69%

(Source: FactSet Research Terminal)

MURGY isn't growing its top line very fast, but its bottom line is moving nicely in the right direction.

Metric	2021 Growth Consensus	2022 Growth Consensus (Bond Market Recession Forecast)	2023 Growth Consensus	2024 Growth Consensus	2025 Growth Consensus	2026 Growth Consensus
Sales	9%	5%	3%	-1%	-6%	2%
Dividend	10%	8%	6%	6%	5%	4%
EPS	143%	17%	16%	7%	3%	6%
Book Value	1%	8%	7%	7%	18%	9%

(Source: FAST Graphs, FactSet Research Terminal)

Even with recession risks rising analysts expect steady and growth from MURGY both in terms of earnings and dividends in the future.

MURGY Long-Term Growth Outlook

Analysts are very bullish on MURGY's growth prospects.

consensus range from 5 sources: 10.2% to 12.0%

individual analysts range: 8.1% to 12.5%

The median growth consensus from all 21 analysts is 10.2%

management guidance: 5+%

How accurate are analysts at forecasting MURGY's growth over time?

Smoothing for outliers analyst margins of error are 20% to the downside and 10% to the upside.

8% to 14% CAGR adjusted growth consensus range

70% statistical probability MURGY grows at 8% to 14% over time

Analysts expect MURGY to grow at a similar rate to the last three and 19 years.

once interest rate hedges roll-off, higher rates in Europe could allow double-digits growth for the foreseeable future

Reason Three: Munich Re Is A Wonderful Company At A Fair Price

In the modern low rate, high regulation post-GFC era, outside of bear markets and bubbles, tens of millions of investors have consistently paid 13 to 14.5X earnings for MURGY.

a 90% statistical probability that this range includes intrinsic value

Metric	Historical Fair Value Multiples (14-years)	2021	2022	2023	2024	12-Month Forward Fair Value
5-Year Average Yield	4.27%	$28.57	$28.29	$28.29	$33.02	
13-Year Median Yield	4.54%	$26.87	$26.61	$26.61	$31.06	
Earnings	13.83	$40.80	$36.37	$42.46	$45.22	
Average		$31.02	$29.87	$31.09	$35.46	$30.25
Current Price	$26.40					
Discount To Fair Value		14.88%	11.63%	15.09%	25.56%	12.72%
Upside To Fair Value (NOT Including Dividends)		17.49%	13.16%	17.78%	34.33%	14.58% (19% including dividends)
2022 EPS	2023 EPS	2022 Weighted EPS	2023 Weighted EPS	12-Month Forward EPS	12-Month Average Fair Value Forward PE	Current Forward PE
$2.63	$3.07	$1.82	$0.94	$2.77	10.9	9.5

We estimate MURGY is worth 10.9X earnings, and today it trades at just 9.4X.

Analyst Median 12-Month Price Target	Morningstar Fair Value Estimate
$31.70 (10.1 PE)	$31.00 (11.2 PE)
Discount To Price Target (Not A Fair Value Estimate)	Discount To Fair Value
18.33%	16.48%
Upside To Price Target (Not Including Dividend)	Upside To Fair Value (Not Including Dividend)
22.44%	19.74%
12-Month Median Total Return Price (Including Dividend)	Fair Value + 12-Month Dividend
$32.91	$32.21
Discount To Total Price Target (Not A Fair Value Estimate)	Discount To Fair Value + 12-Month Dividend
21.33%	19.62%
Upside To Price Target (Including Dividend)	Upside To Fair Value + Dividend
26.94%	24.40%

Morningstar's fair value model is based on a P/BV of 1.2 and is within 2.48% of our estimate.

Across 500 companies DK's average fair value estimate is 1.9% below Morningstar's.

Analysts expect MURGY to deliver 27% total returns in the next year, and 21% of that potential return is justified by fundamentals.

Of course, we don't care about 12-month forecasts, we only care about whether the current margin of safety sufficiently compensates you for the risk profile.

Rating	Margin Of Safety For low risk 12/13 Super SWAN quality companies	2022 Price	2023 Price	12-Month Forward Fair Value
Potentially Reasonable Buy	0%	$29.87	$31.09	$30.25
Potentially Good Buy	10%	$26.89	$27.98	$27.22
Potentially Strong Buy	20%	$23.90	$24.87	$24.20
Potentially Very Strong Buy	30%	$18.82	$21.77	$21.17
Potentially Ultra-Value Buy	40%	$17.92	$18.66	$18.15
Currently	$25.89	13.33%	16.74%	14.41%
Upside To Fair Value (Not Including Dividends)		15.39%	20.10%	16.84%

For anyone comfortable with the risk profile, MURGY is a potentially good buy, and here's why.

Strong Return Potential That Puts The S&P To Shame

For context, here's the return potential of the 14% overvalued S&P 500.

Year	EPS Consensus	YOY Growth	Forward PE	Blended PE	Overvaluation (Forward PE)	Overvaluation (Blended PE)
2021	$206.12	50.17%	20.7	21.3	20%	21%
2022	$226.19	9.74%	19.9	20.3	16%	15%
2023	$249.08	10.12%	18.1	19.0	5%	8%
2024	$275.28	10.52%	16.3	17.2	-5%	-2%
12-Month forward EPS	12-Month Forward PE	Historical Overvaluation	PEG	25-Year Average PEG	S&P 500 Dividend Yield	25-Year Average Dividend Yield
$233.83	19.358	14.88%	2.28	3.62	1.44%	2.01%

(Source: DK S&P 500 Valuation And Total Return Tool)

Stocks have already priced in 94% EPS growth from 2020 through 2024 and are trading at 20X forward earnings.

> 16.85 is the 25-year average
>
> 16.9 is the 10-year average (low rate era)

16.9 is the 45-year average

91% probability that stocks are worth about 17X forward earnings

A 13.0% correction needed to get back to the historical market fair value

S&P 500 2027 Consensus Return Potential

Year	Upside Potential By End of That Year	Consensus CAGR Return Potential By End of That Year	Probability-Weighted Return (Annualized)	Inflation And Risk-Adjusted Expected Returns	Expected Market Return Vs Historical Inflation-Adjusted Return
2027	36.03%	6.35%	4.76%	1.45%	22.31%

(Source: DK S&P 500 Valuation And Total Return Tool)

Adjusted for inflation, the risk-expected returns of the S&P 500 are about 1.5% for the next five years.

22% of the S&P's historical inflation-adjusted returns of 6.5% CAGR

S&P 500 Interest Rate Adjusted Market Valuation

S&P Earnings Yield	10-Year US Treasury Yield	Earning Yield Risk-Premium (3.7% 10 and 20-year average)
5.17%	2.92%	2.25%
Theoretical Interest Rate Justified Market Fair Value Forward PE	Current PE	Theoretically Interest Rate Justified Market Decline
15.10	19.33	21.88%

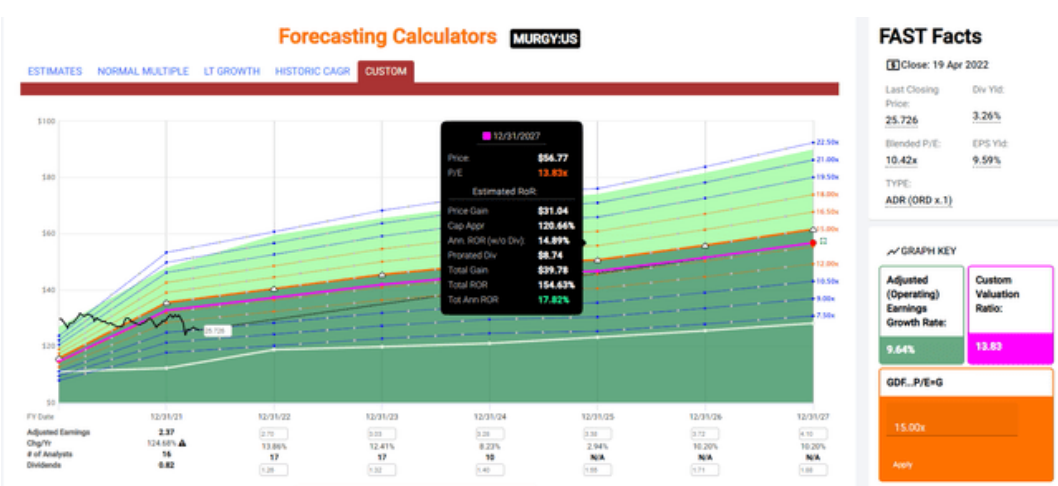
(Source: DK S&P 500 Valuation And Total Return Tool)

Even adjusting for interest rates, stocks still require an even larger 22% correction before they become theoretically fairly valued.

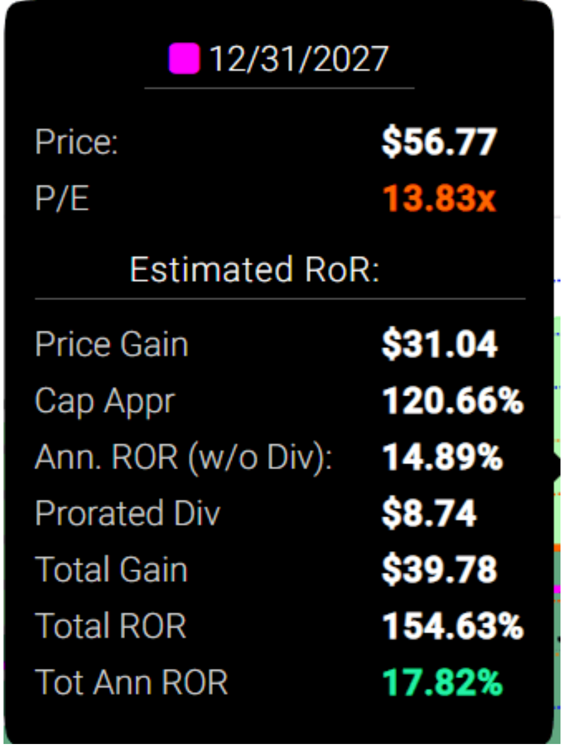
But here's what investors can reasonably expect if MURGY grows as expected over the next five years.

5-year consensus return potential range: 13% to 21% CAGR

MURGY 2027 Consensus Total Return Potential



Fast Graphs



Fast Graphs

By 2027 if MURGY grows as expected and returns to historical fair value, it could more than double and deliver 18% annual total returns.

- also Buffett-like returns
- 4X the S&P 500 consensus

What about the really long-term?

Investment Strategy	Yield	LT Consensus Growth	LT Consensus Total Return Potential	Long-Term Risk-Adjusted Expected Return	Long-Term Inflation And Risk-Adjusted Expected Returns	Years To Double Your Inflation & Risk-Adjusted Wealth	10 Year Inflation And Risk-Adjusted Return
Safe Midstream	5.2%	6.0%	11.2%	7.8%	5.3%	13.5	1.68
Munich RE	4.7%	10.2%	14.9%	10.4%	7.9%	9.1	2.15
Adam's Planned Correction Buys	3.9%	18.9%	22.8%	16.0%	13.5%	5.3	3.54
10-Year US Treasury	2.9%	0.0%	2.9%	2.0%	-0.5%	-156.5	0.95
High-Yield	2.8%	10.3%	13.1%	9.2%	6.7%	10.8	1.91
REITs	2.8%	6.5%	9.3%	6.5%	4.0%	17.9	1.48
Europe	2.6%	12.8%	15.4%	10.7%	8.3%	8.7	2.21

(Sources: Morningstar, FactSet, Ycharts)

Analysts expect MURGY to beat most popular high-yield investment strategies on Wall Street in the long-term

Inflation-Adjusted Consensus Return Potential: $1,000 Initial Investment

Time Frame (Years)	7.4% CAGR Inflation-Adjusted S&P Consensus	8.6% Inflation-Adjusted Aristocrat Consensus	12.4% CAGR Inflation-Adjusted MURGY Consensus	Difference Between Inflation Adjusted MURGY Consensus And S&P Consensus
5	$1,429.63	$1,511.29	$1,794.84	$283.54
10	$2,043.84	$2,284.01	$3,221.44	$937.43
15	$2,921.94	$3,451.81	$5,781.95	$2,330.14
20	$4,177.29	$5,216.70	$10,377.65	$5,160.94
25	$5,971.97	$7,883.98	$18,626.18	$10,742.20
30	$8,537.71	$11,915.01	$33,430.93	$21,515.92

(Source: DK Research Terminal, FactSet)

If MURGY can grow as expected for a decade, it could more than triple your inflation-adjusted wealth. And over 30 years it could be a potential 33 bagger.

Time Frame (Years)	Ratio Aristocrats/S&P	Ratio Inflation-Adjusted MURGY Consensus And S&P Consensus
5	1.06	1.26
10	1.12	1.58
15	1.18	1.98
20	1.25	2.48
25	1.32	3.12
30	1.40	3.92

(Source: DK Research Terminal, FactSet)

Over the next 10 years, MURGY could potentially outperform the S&P by 60%. And over 30 years potentially by 4X.

> potentially much more if the S&P has a lost decade

MURGY Investment Decision Score

4 Priorities Of Prudent Long-Term Income Investors

1. a sufficient margin of safety: never knowingly overpay for a company, no matter the quality
2. preservation of capital: minimize permanent losses of capital, including from bankrupt companies going to zero
3. return of capital: safe and growing dividends that recoup your investment over time (think Shark Tank royalties)
4. return on your capital: sufficient capital gains and total return potential to achieve your long-term goals on an absolute and risk-adjusted basis

Dividend Kings

Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft						
Ticker	murgy	DK Quality Rating	12	82%	Investment Grade	A+
Sector	Finance	Safety	5	85%	Investment Score	100%
Industry	Insurance	Dependability	5	82%	5-Year Dividend Return	32.45%
Sub-Industry	Reinsurance	Business Model	2		Today's 5+ Year Risk Adjusted Expected Return	13.11%
Low Risk Super SWAN, Phoenix, Strong ESG, Adam's Correction Watchlist						

Goal	Scores	Scale	Interpretation
Valuation	4	Good Buy	murgy's 16.33% discount to fair value earns it a 4-of-4 score for valuation timeliness
Preservation of Capital	7	Excellent	murgy's credit rating of AA- implies a 0.55% chance of bankruptcy risk, and earns it a 7-of-7 score for Preservation of Capital
Return of Capital	10	Exceptional	murgy's 32.45% vs. the S&P's 10.03% 5-year potential for return via dividends earns it a 10-of-10 Return of Capital score
Return on Capital	10	Exceptional	murgy's 13.11% vs. the S&P's 4.75% 5-year risk adjusted expected return (RAER) earns it a 10-of-10 Return on Capital score
Total Score	31	Max score of 31	S&P's Score
Investment Score	100%	Exceptional	73/100 = C (Market Average)
Investment Letter Grade	A+		

Dividend Kings

For anyone comfortable with its risk profile, MURGY is as close to a perfect high-yield blue-chip investment as exists on Wall Street today.

- 14% discount vs 14% market premium = 28% better valuation
- far superior fundamental quality and safety
- 50% higher long-term return potential than S&P 500 overtime
- 3X the risk-adjusted expected return for the next five years
- 3X the safer yield

Risk Profile: Why Munich Re Stock Isn't Right For Everyone

- What You Need To Know About Foreign Dividend Withholding Taxes
- Munich Re is a German company so US investors face 26.375% dividend withholding taxes on their shares
- a tax credit recoups this if you fill out the paperwork and own them in taxable accounts

There are no risk-free companies and no company is right for everyone. You have to be comfortable with the fundamental risk profile.

What Could Cause MURGY's Investment Thesis To Break

- safety falls to 40% or less
- balance sheet collapses (very unlikely given their portfolio of assets and capital reserves)
- business model completely disrupted (potentially by smart contracts though insurance giants are most likely to be the ones to introduce them)
- growth outlook falls to less than 5.3% for six years
- MURGY's role in my portfolio is to deliver long-term 10+% returns with minimal fundamental risk
- like all non-defensive sectors (anything that's not REITs, utilities, midstream, healthcare, telecom, consumer staples), I target 10+% long-term return potential for all recommendations

How long it takes for a company's investment thesis to break depends on the quality of the company.

Quality	Years For The Thesis To Break Entirely
Below-Average	1
Average	2
Above-Average	3
Blue-Chip	4
SWAN	5
Super SWAN	6
Ultra SWAN	7
100% Quality Companies (LOW and MA)	8

Source: Dividend Kings

These are my personal rule of thumb for when to sell a stock if the investment thesis has broken.

MURGY is highly unlikely to suffer such catastrophic declines in fundamentals.

MURGY's Risk Profile Summary

> *“The largest mistake we can see that has plagued the business has been the 1996 $3.3 billion acquisition of American Re and the compounding effect this had on the business' asbestos claims...*
>
> *Over these early years, Munich had to continually strengthen the reserves within American Re related to these asbestos claims. However, we believe the last time this occurred was in 2005 and net exposure on Munich’s books now stands at EUR 1.0 billion, having peaked in 2014 at EUR 1.75 billion. Since this time, we believe these claims have developed as a net payout rather than the addition of a net claim.* ***While the acquisition may have caused problems, we believe the reserving action taken by management is excellent...***

> *We think Munich Re may face environmental, social, and governance risks in the form of a data breach of customer information; investment risk in its failure to meets its obligations to clients; climate change impacting payouts; data breach within clients and more generally from poor governance.*
>
> *We think the largest of these are likely climate change and data breaches for clients. We do not view any of these risks as occurring with greater than 25% probability or having more than 25% impact on our fair value estimate. - Morningstar*

MURGY's Risk Profile Includes

- This is a highly volatile industry as far as earnings are concerned
- disasters and black SWAN events can result in tens of billions in sudden losses
- legacy liabilities from things like asbestos claims from past acquisitions
- disruption risk (insurance is potentially disruptable by smart contracts and blockchain, though large insurance companies are the ones likely to institute this in the future)
- political/regulatory risk - capital requirement changes
- M&A execution risk: American RE acquisition didn't turn out as well as planned
- labor retention risk (tightest job market in over 50 years and finance is a high paying industry)
- cybersecurity risk: hackers and ransomware
- currency risk: which is managed with hedging

How do we quantify, monitor, and track such a complex risk profile? By doing what big institutions do.

Material Financial ESG Risk Analysis: How Large Institutions Measure Total Risk

- 4 Things You Need To Know To Profit From ESG Investing
- What Investors Need To Know About Company Long-Term Risk Management (Video)

Here is a special report that outlines the most important aspects of understanding long-term ESG financial risks for your investments.

- ESG is NOT "political or personal ethics based investing"
- it's total long-term risk management analysis

> *"ESG is just normal risk by another name." Simon MacMahon, head of ESG and corporate governance research, Sustainalytics" - Morningstar*
>
> *ESG factors are taken into consideration, alongside all other credit factors, when we consider they are relevant to and have or may have a material influence on creditworthiness." - S&P*

S&P, Fitch, Moody's, DBRS (Canadian rating agency), AM Best (insurance rating agency), R&I Credit Rating (Japanese rating agency), and the Japan Credit Rating Agency have been using ESG models in their credit ratings for decades.

credit and risk management ratings make up 42% of the DK safety and quality model

dividend/balance sheet/risk ratings make up 82% of the DK safety and quality model

Dividend Aristocrats: 67th Industry Percentile On Risk Management (Above-Average, Medium Risk)

MURGY Long-Term Risk Management Consensus

Rating Agency	Industry Percentile	Rating Agency Classification
MSCI 37 Metric Model	88.0%	AA, Industry Leader, Stable Trend
Morningstar/Sustainalytics 20 Metric Model	87.2%	16.7/100 Low-Risk
S&P 1,000+ Metric Model	86.0%	Very Good, Stable Trend
FactSet	30.0%	Below-Average, Positive Trend
Morningstar Global Percentile (All 15,000 Rated Companies)	81.8%	Very Good
Consensus	75%	Low-Risk, Good Risk-Management, Stable Trend

(Sources: MSCI, Morningstar, S&P, FactSet

MURGY's Long-Term Risk Management Is The 131st Best In The Master List (74th Percentile)

Classification	Average Consensus LT Risk-Management Industry Percentile	Risk-Management Rating
S&P Global (SPGI) #1 Risk Management In The Master List	94	Exceptional
Strong ESG Stocks	78	Good - Bordering On Very Good
Munich RE	75	Good
Foreign Dividend Stocks	75	Good
Ultra SWANs	71	Good
Low Volatility Stocks	68	Above-Average
Dividend Aristocrats	67	Above-Average
Dividend Kings	63	Above-Average
Master List average	62	Above-Average
Hyper-Growth stocks	61	Above-Average
Monthly Dividend Stocks	60	Above-Average
Dividend Champions	57	Average

(Source: DK Research Terminal)

MURGY's risk-management consensus is in the top 26% of the world's highest quality companies and similar to that of such other companies as

- T. Rowe Price (TROW) - dividend aristocrat
- Sysco (SYY) - dividend aristocrat
- Intuit (INTU)
- Canadian National Railway (CNI)
- Salesforce (CRM)
- American Tower (AMT)

The bottom line is that all companies have risks, and MURGY is good at managing theirs.

How We Monitor MURGY's Risk Profile

- 21 analysts
- 4 credit rating agencies
- 7 total risk rating agencies

- 28 experts who collectively know this business better than anyone other than management
- and the bond market for real-time fundamental risk assessments when news breaks

> *“When the facts change, I change my mind. What do you do sir?" - John Maynard Keynes*

There are no sacred cows at iREIT or Dividend Kings. Wherever the fundamentals lead we always follow. That's the essence of disciplined financial science, the math behind retiring rich and staying rich in retirement.

Bottom Line: Munich Re Is One Of The Best 5% Yielding Blue-Chips You've Never Heard Of

If interest rates keep rising, the stock market might get upset and take a tumble. If the Fed overdoes it with rate hikes, we might even fall into a recession in late 2023.

These are the biggest risks facing investors right now. But that's all they are, risks.

Things that might go bad with the economic fundamentals and corporate profits.

Right now, the economy is strong and recession risk is under 5% according to the NY Fed.

And guess what? Even if there is a recession in 2023 or 2024 or even 2025, there is one company I'm confident will survive and thrive and not cut its dividends.

Since its founding in 1890, Munich Re has passed through many trials by fire.

- two world wars
- the worst pandemic in human history (which killed 5% of humanity)
- dozens of recessions
- several depressions
- inflation as high as 327,803.49% per year (115 trillion fold increase in prices over 4 years)

It hasn't cut its dividend in 52 years.

- not during the Great Recession
- not during the Pandemic
- not during periods of 7% interest rates
- not during periods of -1% interest rates

Rating agencies and analysts consider this one of the safest reinsurance companies on earth.

Good investing is all about sound risk-management and mastering and managing risk is literally all Munich Re has been doing for 132 years.

So if you're looking for a very safe 4.7% yield, that management says will grow at 5+% over time, consider Munich Re.

If you're looking for an attractively valued Super SWAN that analysts think could match the Nasdaq's long-term performance in the future, consider Munich Re.

If you're looking for a great high-yield way to sleep well at night and potentially retire in safety and splendor, consider Munich Re.

Author's Note: Brad Thomas is a Wall Street writer, which means he's not always right with his predictions or recommendations. Since that also applies to his grammar, please excuse any typos you may find. Also, this article is free: written and distributed only to assist in research while providing a forum for second-level thinking.

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Real-Time Alerts	YES	X
Real-Time Chat	YES	X
REIT Data (all metrics)	YES	X
4 Model Portfolio (Tool with Real-Time Alerts)	YES	X
ASK Brad Anything	YES	X
Annual Conference (somewhere warm)	TBD	X
FREE REIT Book	YES	X
FREE REIT Study Guide	YES	X
24-7 Customer Support	YES	Limited
Monday Morning REIT QB	YES	X
Prop Tech Tracker	YES	X
Analyze Out Loud Videos	YES	X

And this offer includes a 2-Week **FREE TRIAL** plus my FREE book.

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Disclosure: I/we have no stock, option or similar derivative position in any of the companies mentioned, but may initiate a beneficial Long position through a purchase of the stock, or the purchase of call options or similar derivatives in MURGY over the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: Dividend Sensei owns MURGY.