

Mossberg's Investor Digest

Best Idea Profile:

White Mountains Insurance (NYSE:WTM)

DESCRIPTION:

Headquartered in Hanover, New Hampshire; White Mountains Insurance Group is a property and casualty insurance and reinsurance company. White Mountain operates through four separate entities which include OneBeacon, White Mountains Re, Esurance and Other (a number of subsidiaries and an investment management company). Insurance activities include property and casualty, accident and health and reinsurance. White Mountains Re's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures.

KEY INVESTMENT CONSIDERATIONS:

Financial Strength – White Mountain has \$14.2 billion in assets. The company has over \$2 billion in excess assets than can be redeployed for additional operations.

Esurance Sale – During Q2FY2011 White Mountain signed a definitive agreement to sell its Esurance and Answer financial business to Allstate. Esurance was #3 in the Property and Casualty market behind Geico and Progressive. White Mountain was able to sell the business for approximately \$1 billion in cash.

OneBeacon Ownership – OneBeacon Insurance Group, Ltd. is an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies. OneBeacon has a long-term history of successful underwriting and offers a wide range of insurance products. White Mountain currently owns a 76% interest in OneBeacon Ltd.'s outstanding common shares. OneBeacon is currently trading at 1x book value.

Equity Stakes – White Mountain has equity investments in a number of affiliates, some of which trade as low as 1x book value. These investment interests include Tuckerman Fund I (94%), Tuckerman Fund II (48%) Prospector Fund (62% partnership interest), Symetra (15%) and Pentelia (33%)

Opportunity in Japan – The recent Tsunami and Nuclear disasters in Japan are putting upward pressure on reinsurance rates. New premiums are being written with prices that are 40%-50% higher than many pre-disaster policies.

Market Cycle – The reinsurance business appears to be ending an unusually long non-catastrophic cycle that left rates very low and valuations in at historically low levels (1x book value range).

Insider Buying – The Company experienced significant insider buying from a number of officers and directors during the second quarter. Most notably the CEO, Raymond Barrette purchased over \$1mm worth of stock @\$402 per share. Also, two other officers had combined purchases in excess of \$1mm.

VALUATION:

White Mountain is a strong and cash rich diversified franchise. A cyclical turn in the reinsurance business, improvement in other businesses and the Company's investment portfolio make it a classic value play. A better business climate along with some operating improvement should help the company move to a more normalized valuation of 2x book value. The Company currently trades at an 11% discount to book value. A valuation of 1.5x book value would equate to a stock price of \$682.

(White Mountains, Insurance Ltd.: NYSE:WTM) Investment Data (as of 8/16/11)

Recent Price	\$410
52-Week Range	\$295 - \$438
Fiscal Year End	Dec
Dividend	\$1.00
Yield	0.20%
Shares Outstanding	8MM
Average Trading Volume (3 mos)	13.8k
Market Capitalization	\$3.3B
Cash	\$951MM
Long Term Debt	\$669MM
Enterprise Value (EV)	\$3BMM
BV/ Share	\$455
TTM Revenue	\$3.2B
P/ Revenue	1x
TTM EPS	\$13.12
P/ EPS	31
TTM EBITDA	NA
EV/ EBITDA	NA

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