
‘Unshackled’ from Rating Agencies, MBIA Seems Ready to Return Capital to Shareholders.

Bond insurer MBIA may be sold; meantime, it’s buying back shares and may also issue a special dividend, say analysts.

Shares of bond insurer MBIA (MBI), which saw its business plans torpedoed by a two-notch credit rating downgrade late last month, were rising Wednesday after management indicated some shareholder-friendly moves are coming, even as it had to increase accounting for Puerto Rico-related losses.

In a letter to shareholders sent late Tuesday, MBIA’s CEO Jay Brown and President & COO Bill Fallon wrote:

> As we no longer have the primary objective of maintaining a specific rating on our operating company, we are unshackled from most of the limitations imposed by the rating agencies.
> The stock was up 3.34% to $9.90 by 11 a.m. ET after some positive analysts comments.

MKM Partners Harry Fong suspects a special dividend may be in the offing. He wrote Wednesday:

> The company is still saying that it will not seek a special dividend from its New York regulator until it sees more clarity on the Puerto Rican debt situation. However, as it no longer needs to be concerned over maintaining a double-A rating at National Public Finance, we would expect the company to repurchase shares with the excess capital that resides in the unit. Recall that under the S&P triple-A capital model, National calculates that it has about $1.7 billion of excess capital.

Fong’s view of the shares:

> We believe the potential for significant return of capital from MBIA make its shares an excellent short- and long-term investment opportunity, and we reiterate our Buy recommendation with a price target of $15, based on a multiple of about 0.5x our 2018 adjusted book value estimate of about $33.70.

MBIA insures municipal bonds, including ones issued by Puerto Rico, now in a form of bankruptcy. Bond insurers have to be rated higher than municipalities for the insurance to add any value. After the downgrade by S&P Global Ratings to single-A, it said it would no longer attempt to write new business.

It laid off worksers, cut costs and announced a new $250 million share buyback program. In the letter, it pre-announced its expected losses due to Puerto Rico and raised its loan loss reserves.

Analysts Mark Palmer and Giuliano Bologna of BTIG thinks MBIA will be sold eventually. They have a Buy rating and $14 price target. They write Wednesday:

> We continue to believe that with its new business prospects dashed at this point, MBI is likely to sell itself, with industry peer Assured Guaranty (AGO, Buy, $49 PT) the natural buyer. We also think both parties may look for a somewhat greater degree of clarity around the range of MBI's losses on its insured exposures to Puerto Rico's debt before pushing forward with negotiations.

Barron's

By Amey Stone

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