

HCI – High-Return Cash Generator Trading at Deep Value Multiples

HCI | | | FY 2025 | 2026-06-08T18:56:54.823Z

FCF Yield of 20.3% and ROE of 32.6% indicate strong cash profitability, while Revenue Growth of 20.2% has decelerated from a 5Y average of 27.3%, creating a debate over whether low multiples reflect cyclical or durable earnings power.

SIGNALCORE VIEW

Interesting research candidate

SIGNAL SCORE

68 / 100

FUNDAMENTAL QUALITY

0 / 100

EXPANSION POTENTIAL

0 / 100

THESIS RISK

0 / 100

PRIMARY DEBATE — FCF Yield of 20.3% supports the view that the business is materially undervalued, while Revenue Growth of 20.2% versus a 5Y average of 27.3% suggests decelerating expansion; the debate is whether current profitability is sustainable enough to justify higher valuation multiples.

SCORECARD

VALUATION	QUALITY	GROWTH	EXPECTATIONS	EXECUTION	RISK	OVERALL
5	4	4	3	5	3	4

KEY METRICS

EV/EBITDA	EV/FCF	REVENUE GROWTH	EPS GROWTH	FCF GROWTH	ROIC	EPS BEAT RATE	REVENUE BEAT RATE
2.3x	2.3x	20.2%	165.3%	35.6%	25.8%	100%	50%

EXECUTIVE SUMMARY

Investable Debate	FCF Yield of 20.3% supports the view that the business is materially undervalued, while Revenue Growth of 20.2% versus a 5Y average of 27.3% suggests decelerating expansion; the debate is whether current profitability is sustainable enough to justify higher valuation multiples.
Market Pricing	With EV/EBITDA of 2.2x and EV/FCF of 2.3x at a \$2.19B market cap, the market appears to be pricing limited long-term growth and potential earnings volatility despite EPS Growth of 165.3% and FCF Growth of 35.6%.
Valuation	EV/EBITDA of 2.3x is below the 3Y average of 3.6x but above the 5Y average of 1.9x, indicating valuation compression versus recent history but normalization versus longer-term troughs.
Growth	Revenue Growth of 20.2% is below the 3Y average of 22.8% and 5Y average of 27.3%, indicating top-line deceleration.
Cash Flow	Latest Operating CF Growth of 34.6% and FCF Growth of 35.6% are substantially below the 3Y averages of 640776.2% and 796.5%, respectively, indicating normalization from extreme volatility.
Execution	EPS Beat Rate of 100% over 8 quarters and Avg EPS Surprise of 49.7% demonstrate consistent earnings outperformance, while Revenue Beat Rate of 50% and Avg Revenue Surprise of 0.6% indicate revenue volatility.

THESIS DRIVERS

SUPPORTING DRIVERS			HEADWINDS		
1	EPS Growth	165.3%	1	Analyst Coverage	1 analysts
2	EPS Beat Rate	100%			
3	FCF Growth	35.6%			
4	Revenue Beat Rate	50%			
5	Revenue Growth	20.2%			
6	ROIC	25.8%			

INVESTMENT THESIS

HCI generates substantial cash relative to its \$2.19B market capitalization, with FCF To Firm of \$453.6M and an FCF Yield of 20.3%, while ROE of 32.6% and ROIC of 14.3% indicate meaningful capital efficiency. The current EV/EBITDA of 2.2x and EV/FCF of 2.3x imply either an expectation of earnings volatility or structural decline, yet EPS Growth of 165.3% and Net Income Growth of 171.9% suggest significant operating momentum. Revenue Growth of 20.2% is below its 3Y average of 22.8% and 5Y average of 27.3%, indicating top-line deceleration, but profit growth materially exceeds those historical averages. The central tension is whether the current valuation reflects justified caution or mispriced earnings durability.

INVESTABLE DEBATE

FCF Yield of 20.3% supports the view that the business is materially undervalued, while Revenue Growth of 20.2% versus a 5Y average of 27.3% suggests decelerating expansion; the debate is whether current profitability is sustainable enough to justify higher valuation multiples.

MARKET EXPECTATIONS

With EV/EBITDA of 2.2x and EV/FCF of 2.3x at a \$2.19B market cap, the market appears to be pricing limited long-term growth and potential earnings volatility despite EPS Growth of 165.3% and FCF Growth of 35.6%. An Earnings Yield of 13.7% and FCF Yield of 20.3% imply the price embeds expectations of either contraction in profitability or normalization of cash flow rather than continued expansion. Given ROE of 32.6% and Net Debt/EBITDA of -2.1x, the price appears behind current fundamentals but skeptical of their durability.

VALUATION

EV/EBITDA of 2.3x is below the 3Y average of 3.6x but above the 5Y average of 1.9x, indicating valuation compression versus recent history but normalization versus longer-term troughs. EV/FCF of 2.3x compares to a 3Y average of 2.5x, suggesting alignment with recent cash flow valuation. The latest FCF Yield of 20.3% is below the 3Y average of 24.4% but above the 5Y average of 16.8%, implying valuation reflects moderated cash returns. Given FCF Growth of 35.6% and EPS Growth of 165.3%, current multiples embed an assumption that elevated profit growth will slow materially.

QUALITY & CAPITAL EFFICIENCY

ROE of 32.6% and ROA of 13.0% indicate strong profitability relative to assets, while ROIC of 14.3% remains solid despite being below the 3Y average of 35.9%. Net Debt/EBITDA of -2.1x reflects a net cash balance sheet, supporting resilience. Income Quality of 1.39 suggests earnings exceed cash flow, yet FCF To Firm of \$453.6M confirms substantial cash generation. Capital efficiency appears normalized from extreme historical volatility but remains strong relative to valuation.

GROWTH TRAJECTORY

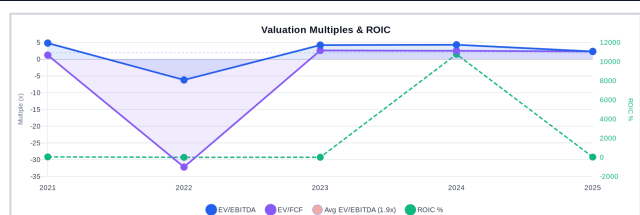
Revenue Growth of 20.2% is below the 3Y average of 22.8% and 5Y average of 27.3%, indicating top-line deceleration. However, EPS Growth of 165.3% exceeds the 3Y average of 142.5% and contrasts sharply with the 5Y average of -495.8%, while Net Income Growth of 171.9% exceeds the 3Y average of 148.7%. FCF Growth of 35.6% confirms earnings expansion is translating into cash. Growth has shifted from revenue-led to margin-led expansion.

CASH FLOW & CONVERSION

Latest Operating CF Growth of 34.6% and FCF Growth of 35.6% are substantially below the 3Y averages of 640776.2% and 796.5%, respectively, indicating normalization from extreme volatility. However, both metrics are positive and exceed Capex Growth of 10.3%, confirming that free cash flow growth is keeping pace despite reinvestment. Compared to a 5Y average FCF Growth of 462%, momentum has decelerated but stabilized.

Operating CF Growth of 34.6% and FCF Growth of 35.6% are closely aligned, indicating no conversion problem under the rule requiring positive OCF and negative FCF to signal concern. Capex Growth of 10.3% is well below FCF Growth of 35.6%, eliminating capex drag. SBC Growth of 7.7% is materially below Net Income Growth of 191.4%, reducing earnings quality concerns.

VISUAL ANALYSIS

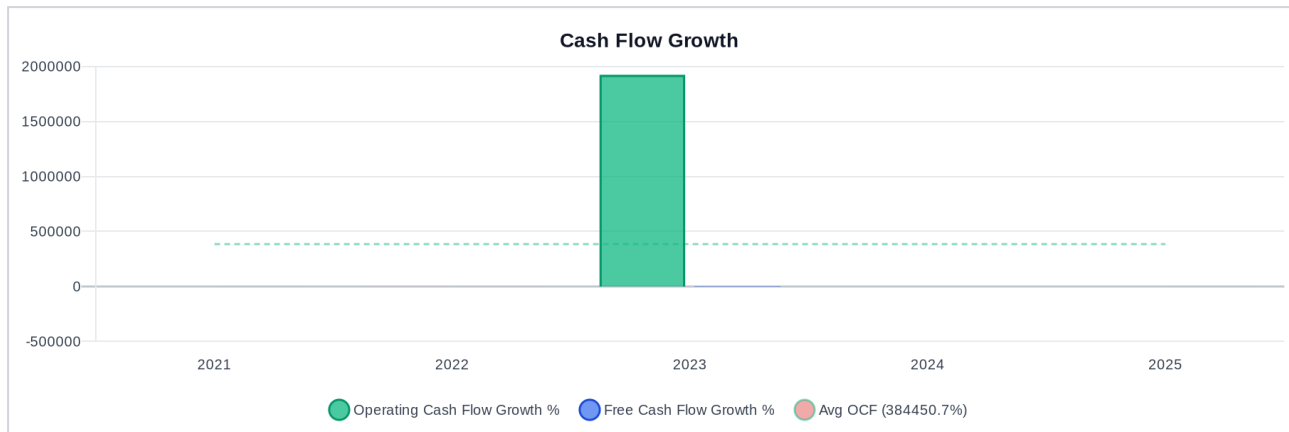


GROWTH TRENDS — REVENUE, EPS & OPERATING INCOME

Revenue Growth of 20.2% is below the 3Y average of 22.8% and 5Y average of 27.3%, indicating top-line deceleration.

VALUATION MULTIPLES & ROIC OVERLAY

EV/EBITDA of 2.3x is below the 3Y average of 3.6x but above the 5Y average of 1.9x, indicating valuation compression versus recent history but normalization versus longer-term troughs.



CASH FLOW GROWTH — OCF & FCF TRENDS

Latest Operating CF Growth of 34.6% and FCF Growth of 35.6% are substantially below the 3Y averages of 640776.2% and 796.5%, respectively, indicating normalization from extreme volatility.

EXPECTATIONS & EXECUTION

Next Revenue Estimate of \$1,008,445,500 implies growth broadly consistent with recent quarterly revenues near \$246M, while Revenue Dispersion of 0.3% and EPS Dispersion of 6.7% indicate contained variability across 1 revenue and 2 EPS analysts. Given EPS Growth of 165.3% versus a 3Y average of 142.5%, expectations appear Reasonable rather than Demanding because consensus EPS of 17.78 does not require acceleration beyond recent growth.

EPS Beat Rate of 100% over 8 quarters and Avg EPS Surprise of 49.7% demonstrate consistent earnings outperformance, while Revenue Beat Rate of 50% and Avg Revenue Surprise of 0.6% indicate revenue volatility. The asymmetry suggests management has outperformed on profitability more than top-line delivery.

Given 8 EPS beats out of 8 quarters and EPS surprises averaging 49.7%, the credibility of the 17.78 EPS estimate is supported by historical execution. However, only 50% revenue beat rate indicates that revenue forecasts may carry moderate uncertainty relative to earnings guidance.

BULL / BASE / BEAR SCENARIOS

BULL CASE	BASE CASE	BEAR CASE
If Revenue Growth remains near 20.2% and EPS Growth sustains above 100% while EV/EBITDA expands toward the 3Y average of 3.6x, then valuation could normalize higher as cash flow durability is confirmed by FCF Growth of 35.6%.	If Revenue Growth moderates toward the 3Y average of 22.8% and EPS aligns with the 17.78 estimate while EV/FCF remains near 2.3x, then the market narrative centers on stable but cyclical earnings supported by ROE of 32.6%.	If Revenue Growth falls below 20.2% and FCF Growth declines below 0% while EV/EBITDA compresses toward the 5Y average of 1.9x, then the thesis weakens as cash durability is questioned despite Net Debt/EBITDA of -2.1x.
<div style="display: flex; justify-content: space-between;"> <div>EPS Growth 165.3%</div> <div>FCF Yield 20.3%</div> </div> <div>EV/EBITDA 2.3x</div>	<div style="display: flex; justify-content: space-between;"> <div>Revenue Growth 20.2%</div> <div>Next EPS Estimate 17.78</div> <div>ROE 32.6%</div> </div>	<div style="display: flex; justify-content: space-between;"> <div>Revenue Growth 20.2%</div> <div>FCF Growth 35.6%</div> </div> <div>Net Debt/EBITDA -2.1x</div>

SCENARIO PROBABILITY MATRIX

BULL	BASE	BEAR	EXP. VALUE
35%	50%	15%	69 / 100

12-24 MONTH OUTLOOK

If Revenue Growth stabilizes near 20.2% over 12 months and remains above 22.8% over 24 months, then revenue normalization would support sustained earnings leverage.

If EPS Growth remains above the 3Y average of 142.5% and FCF Growth stays above 30%, then earnings durability would be reinforced.

If EV/EBITDA reverts toward 3.6x while ROE remains above 28.7%, then valuation would align with historical averages.

If EPS Beat Rate remains near 100% over the next 4 quarters and Avg EPS Surprise exceeds 20%, then estimate credibility would remain elevated.

If FCF Yield remains above 20.0% and Net Debt/EBITDA stays below 0.0x, then the narrative would focus on durable cash returns despite revenue normalization.

THESIS MONITOR

TRACK QUARTERLY	THESIS CHANGES IF	THESIS WEAKENS IF
Can FCF Growth sustain above 35.6%?	FCF Growth falls below 0%	Operating CF Growth turns negative
Will ROE remain above 28.7%?	ROE declines below 20%	EPS Growth falls below 0%
Does EPS Growth remain above 142.5%?	EV/EBITDA rises above 3.6x	Net Debt/EBITDA exceeds 2.0x

RISK ASSESSMENT

DIMENSION	SCORE (1-5)	LEVEL
Valuation Risk	1 / 5	Low
Growth Risk	2 / 5	Low
Execution Risk	1 / 5	Low
Forecast Risk	3 / 5	Moderate
Quality Risk	2 / 5	Low
Overall Risk	3 / 5	Moderate

Composite Risk Score **2.0 / 5**

- FCF Growth 35.6%
- Revenue Dispersion 0.3%
- ROIC 14.3%

NEWS NARRATIVE

The headline "HCI Group Reports First Quarter 2026 Results" aligns with the 100% EPS Beat Rate over 8 quarters and Avg EPS Surprise of 49.7%, reinforcing execution strength. "HCI Group Announces Completion of its 2026-2027 Catastrophe Reinsurance Programs" corresponds with stable Net Debt/EBITDA of -2.1x and supports balance sheet resilience. "HCI Group Declares Quarterly Cash Dividend" is consistent with Dividends Paid Growth of -16.2% in the latest year, indicating capital return variability.

INVESTMENT VIEW

RATING CONVICTION RISK LEVEL
Outperform **High** **Moderate**

Core Thesis: FCF Yield of 20.3% and ROE of 32.6% indicate strong cash profitability, while Revenue Growth of 20.2% has decelerated from a 5Y average of 27.3%, creating a debate over whether low multiples reflect cyclical or durable earnings power.

Primary Risk: Revenue Growth below 20.2%

Monitor: Can FCF Growth sustain above 35.6%?