



# Cincinnati Financial Corporation (CINF)

Updated February 8<sup>th</sup>, 2019 by Bob Ciura

## Key Metrics

<b>Current Price:</b>	\$84	<b>5 Year CAGR Estimate:</b>	-1.3%	<b>Volatility Percentile:</b>	14.0%
<b>Fair Value Price:</b>	\$53	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	80.7%
<b>% Fair Value:</b>	160%	<b>5 Year Valuation Multiple Estimate:</b>	-9.0%	<b>Growth Percentile:</b>	33.7%
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$67	<b>Valuation Percentile:</b>	2.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	2.6%

## Overview & Current Events

Cincinnati Financial is an insurance company founded in 1950. It offers business, home, and auto insurance, as well as financial products including life insurance, annuities, and property and casualty insurance. Instead of focusing solely on high-margin products like some other insurance companies, Cincinnati Financial is willing to write lower-margin policies. In addition, as an insurance company, Cincinnati Financial makes money in two ways. It earns income from premiums on policies written, and also by investing its float, or the large sum of premium income not paid out in claims.

In early February (2/6/19) Cincinnati Financial reported fourth-quarter and full-year financial results. Total revenue declined roughly 50% in GAAP terms, but this was due entirely to a recent change in FASB accounting standards related to securities investments. The core metrics for Cincinnati Financial continue to look strong. For example, earned premiums increased 5%, while investment income rose 3% for the fourth quarter. Adjusted earnings-per-share of \$0.98 increased 5% for the period. For the full-year, adjusted earnings-per-share increased 22% to \$3.35. Higher premium income, higher investment income, share repurchases, and tax reform contributed to Cincinnati Financial's strong performance last year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.32	\$1.68	\$0.74	\$2.57	\$2.81	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	<b>\$3.28</b>	<b>\$4.19</b>
<b>DPS</b>	\$1.57	\$1.59	\$1.61	\$1.62	\$1.66	\$1.74	\$1.82	\$1.90	\$1.98	\$2.14	<b>\$2.24</b>	<b>\$2.86</b>
<b>Shares</b>	162.0	163.0	162.0	163.0	163.0	163.7	163.9	164.4	163.9	162.8	<b>162.0</b>	<b>160.0</b>

Cincinnati Financial's 2018 earnings-per-share came in \$0.10 higher than what we had expected. 2019 is expected to be a slight decline for the company's EPS, as some of the benefits of tax reform roll off. Still, the company has a positive long-term growth outlook. Growth will be derived from new policies and higher investment income. Rising interest rates will fuel higher returns from the company's investment portfolio. The U.S. Federal Reserve has begun to raise interest rates again, and there will likely be additional rate hikes in 2019. This is generally positive for insurers like Cincinnati Financial, which will earn more income from its investment portfolio as rates rise. The company also announced the acquisition of MSP Underwriting Limited, a global specialty underwriter from Munich Re for approximately \$131 million, which will boost its international growth.

Over the following five-year period through 2024, Cincinnati Financial is expected to increase earnings-per-share and dividends-per-share by 5% and 3% per year, respectively. We believe these projections are reasonable due to the company's recent growth rates and future outlook.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	18.3	16.8	40.3	14.3	17.0	18.3	15.2	22.7	26.8	23.1	<b>25.6</b>	<b>16.0</b>
<b>Avg. Yld.</b>	6.5%	5.6%	5.4%	4.4%	3.5%	3.6%	3.4%	2.7%	2.7%	2.7%	<b>2.7%</b>	<b>4.3%</b>

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Based on 2019 average analyst EPS estimates, Cincinnati Financial stock trades for a price-to-earnings ratio of approximately 25.6, which we view as significantly above fair value. In the past 10 years, Cincinnati Financial stock held an average price-to-earnings ratio of 20.5, although the valuation is skewed by an elevated price-to-earnings ratio in 2011. Based on comparable valuations in the insurance industry, our fair value estimate is a price-to-earnings ratio of 16. Cincinnati Financial is a high-quality company with a long dividend history, but insurance companies typically do not hold price-to-earnings ratios in the high-teens. Over the next five years, a declining price-to-earnings ratio could reduce annual returns by approximately 9.0% per year.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

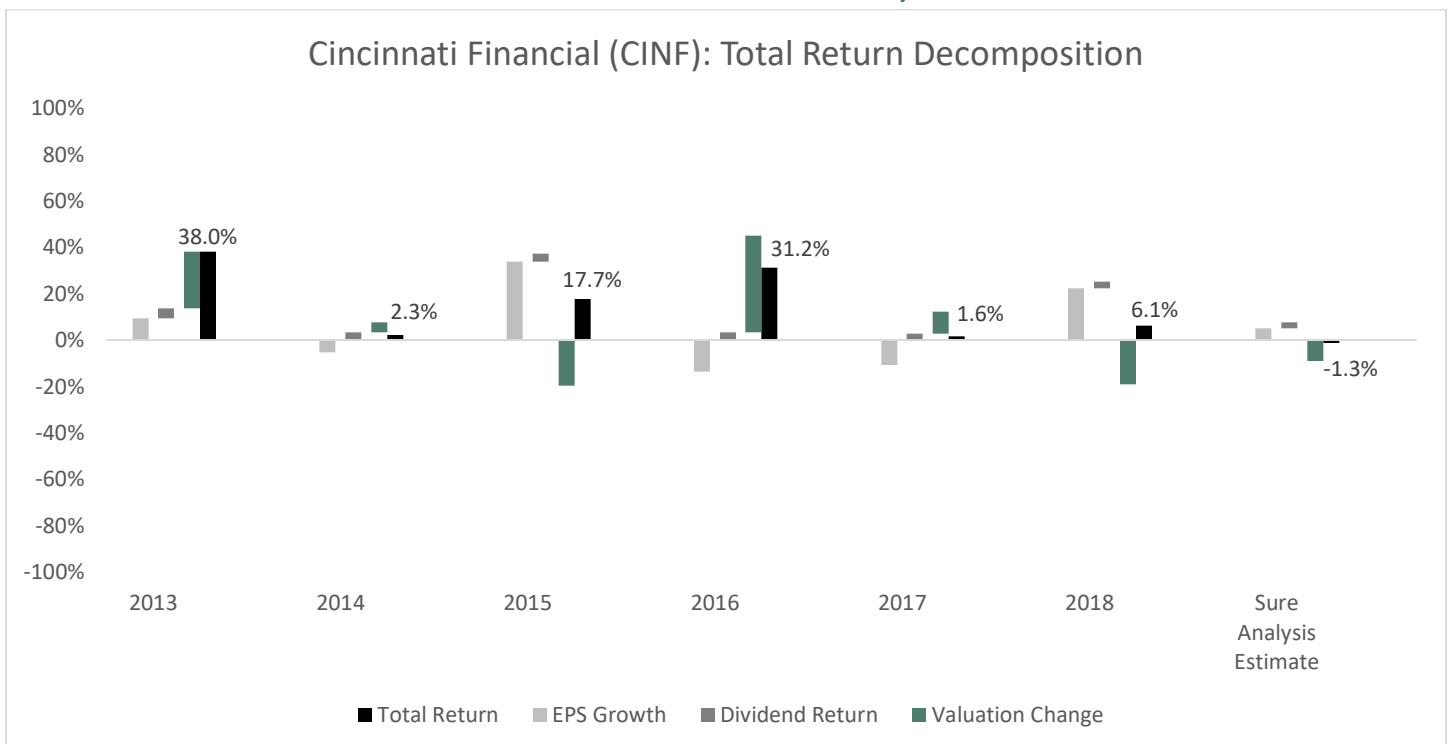
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>Payout</b>	119%	94.6%	118%	63%	59.1%	65.4%	51.1%	61.9%	72.3%	65.8%	<b>68.3%</b>	<b>68.3%</b>

Cincinnati Financial ranks well for safety and quality. It has a strong balance sheet and the company is highly profitable. It is a Dividend King, and has increased its dividend each year for 59 years in a row. However, Cincinnati Financial lacks durable competitive advantages. Brand positioning helps, and to that end Cincinnati Financial has developed a close relationship with its customers. But competition is fierce, and insurance companies do not enjoy high brand loyalty. Competing insurers can lure customers away with relative ease by offering price discounts or other promotions.

## Final Thoughts & Recommendation

Cincinnati Financial is a high-quality but expensive dividend stock. The valuation is very high, while the company's long-term earnings growth will likely remain in the mid-single-digits. A declining valuation could effectively nullify Cincinnati Financial's earnings growth and dividend yield. Total returns are expected to be negative, meaning shareholders could lose money over the next five years due entirely to the irrationally high stock valuation. As a result, Cincinnati Financial earns a sell recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	3824	3903	3772	3803	4111	4531	4945	5142	5449	5732
<b>D&amp;A Exp.</b>	32	38	41	42	44	50	51	52	48	55
<b>Net Profit</b>	429	432	375	164	421	517	525	634	591	1045
<b>Net Margin</b>	11.2%	11.1%	9.9%	4.3%	10.2%	11.4%	10.6%	12.3%	10.8%	18.2%
<b>Free Cash Flow</b>	448	483	514	240	632	789	864	1065	1102	1036
<b>Income Tax</b>	111	150	123	9	145	197	196	247	221	-315

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	13369	14440	15095	15635	16548	17662	18748	18888	20386	21843
<b>Cash &amp; Equivalents</b>	1009	557	385	438	487	433	591	544	777	657
<b>Acc. Receivable</b>	1059	995	1015	1828	1944	2014	2073	2102	2212	2155
<b>Total Liabilities</b>	9187	9680	10063	10602	11095	11592	12175	12461	13326	13600
<b>Long-Term Debt</b>	840	839	856	925	931	894	835	821	807	811
<b>Total Equity</b>	4182	4760	5032	5033	5453	6070	6573	6427	7060	8243
<b>D/E Ratio</b>	0.20	0.18	0.17	0.18	0.17	0.15	0.13	0.13	0.11	0.10

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	2.9%	3.1%	2.5%	1.1%	2.6%	3.0%	2.9%	3.4%	3.0%	4.9%
<b>Return on Equity</b>	8.5%	9.7%	7.7%	3.3%	8.0%	9.0%	8.3%	9.8%	8.8%	13.7%
<b>ROIC</b>	7.3%	8.1%	6.5%	2.8%	6.8%	7.7%	7.3%	8.7%	7.8%	12.4%
<b>Shares Out.</b>	162.0	162.0	163.0	162.0	163.0	163.0	163.7	163.9	164.4	163.9
<b>Revenue/Share</b>	23.41	23.96	23.10	23.29	25.11	27.39	29.95	31.05	32.73	34.53
<b>FCF/Share</b>	2.74	2.97	3.15	1.47	3.86	4.77	5.23	6.43	6.62	6.24

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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