



# Cincinnati Financial Corporation (CINF)

Updated May 17<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$98	<b>5 Year CAGR Estimate:</b>	-2.7%	<b>Volatility Percentile:</b>	16.6%
<b>Fair Value Price:</b>	\$58	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	95.3%
<b>% Fair Value:</b>	169%	<b>5 Year Valuation Multiple Estimate:</b>	-10.0%	<b>Growth Percentile:</b>	35.8%
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$74	<b>Valuation Percentile:</b>	3.1%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	2.5%

## 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. Cincinnati Financial is headquartered in Fairfield, Ohio, and is trading with a market capitalization of \$15.9 billion. 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.

Cincinnati Financial reported its first quarter earnings results on April 24. The company reported that its revenues totaled \$2.16 billion during the quarter, which represents a growth rate of 77% year over year. This massive revenue growth was impacted by unrealized gains on Cincinnati Financial's equity portfolio. This was the result of the market's recovery during the first quarter, following the steep equity market declines during the fourth quarter of fiscal 2018. Equity markets will not rise by as much as during the first quarter going forward, which is why the huge 77% revenue growth rate from Q1 is not sustainable.

Cincinnati Financial's underlying growth was still strong, though, as earned premiums rose to \$1.33 billion, up 6% year over year. Investment income was up 5% year over year, as higher interest rates have a positive impact on the returns that Cincinnati Financial is able to generate with its insurance float.

Cincinnati Financial generated earnings-per-share of \$1.05 during the first quarter, up 46% year over year. This strong earnings-per-share growth rate was positively impacted by lower catastrophe losses during the quarter.

## 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>\$3.62</b>	<b>\$4.62</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>

Between 2009 and 2018 Cincinnati Financial has grown its earnings-per-share at a strong pace of 11% annually, although it was easy for the company to generate an above-average growth rate during the recovery from the financial crisis, i.e. between 2009 and 2013. Between 2013 and 2018, earnings-per-share growth was not strong, at just 3.6% annually.

2018 was a strong year for the company, but positive impacts from tax law changes have now been lapped, which is why growth will not be as strong in future years. 2019 still looks like it will be better than 2018. Going forward, growth will be derived from new policies and higher investment income. Rising interest rates will fuel higher returns from the company's investment portfolio, as investments can be rolled into higher-yielding bonds over the coming years.

Cincinnati Financial also makes acquisitions from time to time, the company, for example, closed the acquisition of MSP Underwriting Limited during the first quarter. MSP Underwriting is a global specialty underwriter that was acquired from Munich Re for approximately \$131 million. This takeover should boost Cincinnati Financial's international exposure, and should allow for improving growth rates for its international business.

We believe that Cincinnati Financial will be able to grow its earnings-per-share at a mid-single digits pace going forward. The company should also be able to keep its dividend growing over the coming years.

*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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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.3	16.8	40.3	14.3	17.0	18.3	15.2	22.7	26.8	23.1	<b>27.1</b>	<b>16.0</b>
Avg. Yld.	6.5%	5.6%	5.4%	4.4%	3.5%	3.6%	3.4%	2.7%	2.7%	2.7%	<b>2.3%</b>	<b>3.9%</b>

Cincinnati Financial trades for a very high valuation of 27 times this year's expected net earnings. This is the result of strong share price gains over the last couple of years, while earnings did not grow much during that time frame. Cincinnati Financial is a high-quality company with a long dividend history, but factoring in the valuations its peers trade at, and its modest earnings growth, we believe a mid-teens earnings multiple would be a much fairer valuation.

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

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

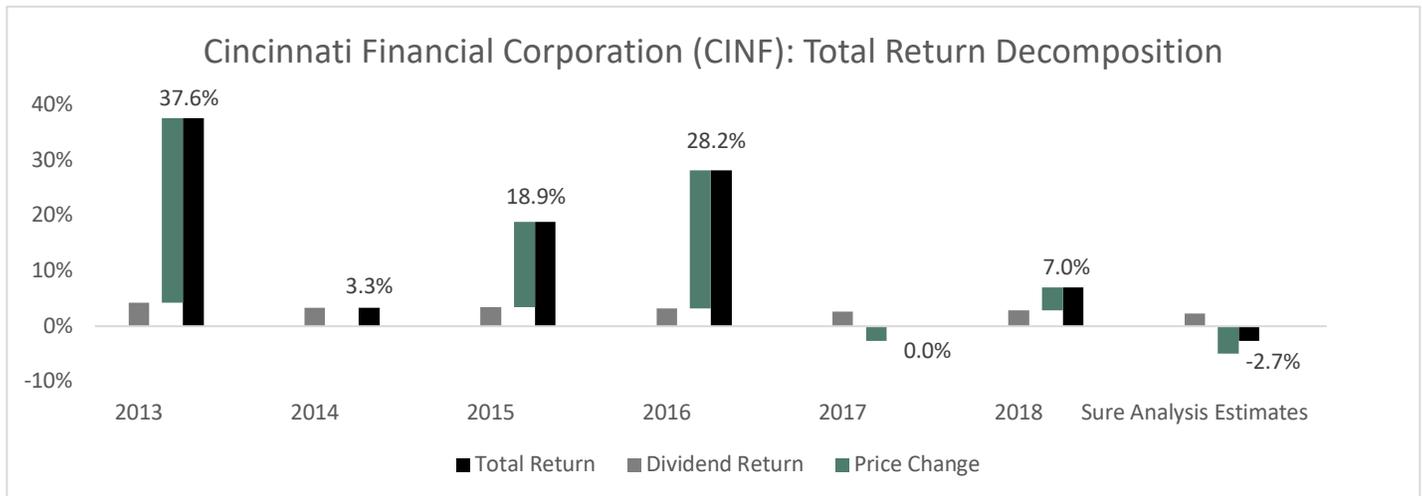
Cincinnati Financial has a strong dividend growth track record. Unlike many peers from the financial industry, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but the company nevertheless continued to grow its payout, and dividends have been fully covered from 2010. With its dividend record during the financial crisis, and accounting for the fact that Cincinnati Financial is a Dividend King, we believe that the risk of a dividend cut is very low with this company.

Cincinnati Financial lacks durable competitive advantages. Its recognized brand 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. Cincinnati Financial is not insulated against recessions, but is not as vulnerable as some of its peers, either.

## Final Thoughts & Recommendation

Cincinnati Financial is a high-quality dividend stock that has delivered compelling results for shareholders in the past. Cincinnati Financial is not a high-growth name, though, and we believe that earnings-per-share will rise at a mid-single digit pace. Cincinnati Financial is trading at a very high valuation compared to what seems justified based on the company's growth outlook and the valuations for its peers. We believe that multiple compression will be a meaningful headwind for the company's total returns going forward. Cincinnati Financial earns a sell recommendation due to this.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	3903	3772	3803	4111	4531	4945	5142	5449	5732	5407
<b>D&amp;A Exp.</b>	38	41	42	44	50	51	52	48	55	63
<b>Net Profit</b>	432	375	164	421	517	525	634	591	1045	287
<b>Net Margin</b>	11.1%	9.9%	4.3%	10.2%	11.4%	10.6%	12.3%	10.8%	18.2%	5.3%
<b>Free Cash Flow</b>	483	514	240	632	789	864	1065	1102	1036	1161
<b>Income Tax</b>	150	123	9	145	197	196	247	221	-315	-36

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	14440	15095	15635	16548	17662	18748	18888	20386	21843	21935
<b>Cash &amp; Equivalents</b>	557	385	438	487	433	591	544	777	657	784
<b>Acc. Receivable</b>	995	1015	1828	1944	2014	2073	2102	2212	2155	2260
<b>Total Liabilities</b>	9680	10063	10602	11095	11592	12175	12461	13326	13600	14102
<b>Long-Term Debt</b>	839	856	925	931	894	835	821	807	811	820
<b>Total Equity</b>	4760	5032	5033	5453	6070	6573	6427	7060	8243	7833
<b>D/E Ratio</b>	0.18	0.17	0.18	0.17	0.15	0.13	0.13	0.11	0.10	0.10

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	3.1%	2.5%	1.1%	2.6%	3.0%	2.9%	3.4%	3.0%	4.9%	1.3%
<b>Return on Equity</b>	9.7%	7.7%	3.3%	8.0%	9.0%	8.3%	9.8%	8.8%	13.7%	3.6%
<b>ROIC</b>	8.1%	6.5%	2.8%	6.8%	7.7%	7.3%	8.7%	7.8%	12.4%	3.2%
<b>Shares Out.</b>	162.0	163.0	162.0	163.0	163.0	163.7	163.9	164.4	163.9	162.8
<b>Revenue/Share</b>	23.96	23.10	23.29	25.11	27.39	29.95	31.05	32.73	34.53	32.87
<b>FCF/Share</b>	2.97	3.15	1.47	3.86	4.77	5.23	6.43	6.62	6.24	7.06

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

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