Allstate Corporation (ALL)

Updated August 20th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	5.4%	**Volatility Percentile:**	18.4%
Fair Value Price:	$100	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	61.9%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Growth Percentile:**	26.2%
Dividend Yield:	1.9%	**5 Year Price Target**	$122	**Valuation Percentile:**	47.5%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	24.7%

Overview & Current Events

Allstate Corporation is an insurance company that offers property and casualty insurance to its customers. The company also sells life, accident, and health insurance products. Its segments include Allstate Protection, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, etc. Allstate's insurance brands include Allstate, Encompass, and Esurance. Allstate Corporation was founded in 1931 and the company is headquartered in Northbrook, IL. Allstate is currently trading with a market capitalization of $34 billion.

Allstate Corporation reported its second quarter results on July 30th. The company reported consolidated revenue of $11.1 billion, up 10.3% year-over-year. Property and casualty insurance premiums written totaled $9.4 billion, up 6.3% from the same period a year ago.

The corporation generated net investment income of $821 million, up 21% from last year's income of $678 million. Adjusted net income came in at $735 million, up only 3.5%, due to higher earned premium and net investment income. Unfortunately, catastrophe losses continue to climb, up 18% from last year to $1.1 billion. On a per share basis, diluted EPS was up 9% to $2.18 from $2.00.

Total policies in force have increased dramatically YoY, from 88.4 million to 129.8 million, a 47% increase. Over the last 12 months, adjusted net income return on common shareholders' equity was 13.5%. The company also repurchased $498 million of outstanding shares during the second quarter. Book value per common share increased 13.7% YoY, to $67.28, due to strong income generation and appreciation of the investment portfolio.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.47	$2.83	$1.34	$4.34	$5.70	$5.42	$5.21	$4.89	$6.71	$8.03	***$9.14***	***$11.12***
DPS	$1.01	$0.80	$0.83	$0.88	$1.00	$1.12	$1.18	$1.29	$1.45	$1.84	***$2.00***	***$2.90***
Shares	537	533	501	479	449	418	381	366	355	342	***330***	***290***

Allstate's profits took a large hit during the last financial crisis. Earnings peaked in 2006 at $7.67 and continued to drop for several years before bottoming out in 2011, more than 80% below the peak that was hit five years earlier. Since then profits have recovered, though, and have risen to new record highs in 2018.

The insurance industry is not a high-growth industry, but Allstate surprisingly managed to grow its net premiums written considerably during the most recent quarters, and they continued this streak in the second quarter, up 6.3% YoY. Higher contract volumes bode well for the company's near-term growth, which is why it is not surprising that analysts are forecasting sizeable earnings growth in 2019 as well. If catastrophe losses decline from the above-average level they were at during 2018 and the start of 2019, this would be another tailwind for Allstate's profitability during the foreseeable future. Allstate would benefit from rising interest rates, as this allows the company to deploy the insurance float more profitably, which should bolster profit growth as well. However, it appears the Fed is going in the opposite direction which may weigh slightly on profitability. The company has very successfully reduced its share count throughout the last decade. It is likely that share repurchases will remain a key factor for earnings-per-share growth going forward as well. In the last 12 months, the company has repurchased 5.6% of outstanding shares.

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.

Allstate Corporation (ALL)

Updated August 20th, 2019 by Quinn Mohammed

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	7.4	10.8	21.6	8.2	8.7	11.0	12.6	13.8	13.1	10.3	***11.3***	***11.0***
Avg. Yld.	3.9%	2.6%	2.9%	3.1%	1.5%	1.9%	1.8%	1.9%	1.6%	2.2%	***1.9%***	***2.4%***

Allstate Corporation trades at 11.3 times this year's expected net earnings right now. This is a lower valuation than the one Allstate has traded at during the last couple of years, but slightly higher than the long-term median earnings multiple of around 11. We believe that shares are marginally overvalued right here, which results in a headwind to the multiple of 2.7%. Allstate's dividend yield is only 5 bps higher than that of the broad market, as a result, Allstate does not look like a compelling investment for yield-seeking investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	29%	28%	62%	20%	18%	21%	23%	26%	22%	23%	***22%***	***26%***

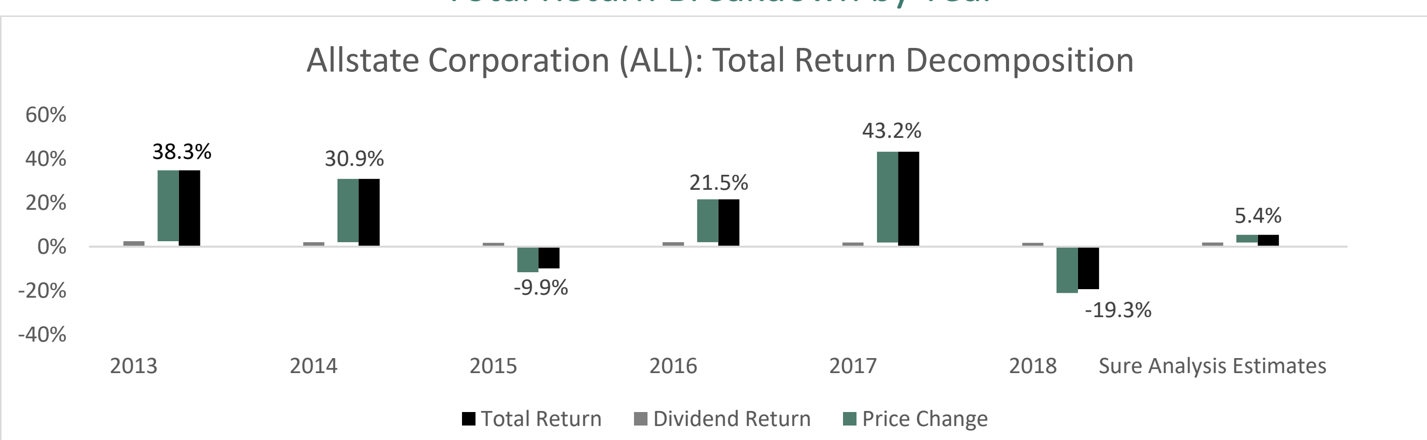
Allstate saw its profits shrink considerably during the last financial crisis, which is why the company cut its dividend during those troubled times. The dividend was cut from 2008 to 2009 as well as from 2009 to 2010. The dividend payout ratio is quite low, though, and another financial crisis the size of the one a decade ago is not likely in the foreseeable future. The risk of another dividend cut during the next couple of years is relatively low.

Allstate does not have strong recession performance; its profits declined massively, and it took the company until 2018 to breach its earnings-per-share record that the company set in 2006. Allstate is thus not a resilient investment. Allstate is highly reliant on auto insurance, which is responsible for more than 50% of revenues. Shifts towards more autonomous driving or ride sharing could thus turn into a headwind in the (more distant) future.

Final Thoughts & Recommendation

Allstate is one of the largest American insurers yet continues to increase its insurance premiums written at a healthy clip. However, net investment income and higher catastrophe losses are weighing on earnings. Despite this, we are forecasting that Allstate can increase earnings by 4.0% over the mid-term. In addition, we believe the stock is slightly overvalued, and could decline 0.5% due to multiple compression. Allstate currently yields 1.9%, which may cause income investors to shy away from the stock. The total return outlook is decent at 5.4%, which is why we rate the insurer a hold right here.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Allstate Corporation (ALL)

Updated August 20th, 2019 by Quinn Mohammed

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	32013	31400	32654	33315	34507	35239	35653	37399	39407	39815
SG&A Exp.	N/A	3542	3739	4118	4387	4341	4081	4939	5442	5869
D&A Exp.	91	94	252	388	368	366	371	382	483	511
Net Profit	854	911	787	2306	2280	2850	2171	1877	3189	2252
Net Margin	2.7%	2.9%	2.4%	6.9%	6.6%	8.1%	6.1%	5.0%	8.1%	5.7%
Free Cash Flow	4112	3527	1683	2769	4035	2948	3313	3680	4015	4898
Income Tax	394	189	172	1000	1116	1386	1111	877	802	492

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	132.65	130.87	125.19	126.95	123.52	108.48	104.66	108.61	112.42	112.25
Cash & Equivalents	612	562	776	806	675	657	495	436	617	499
Acc. Receivable	4839	4839	12171	13818	12858	13955	14062	14342	14707	15719
Goodwill & Int.	875	874	1242	1240	1243	1219	1219	1219	2737	3243
Total Liab. ($B)	115.93	111.83	106.87	106.37	102.04	86.18	84.63	88.04	89.87	90.94
Accounts Payable	N/A	N/A	2588	4010	4664	5694	5892	6184	6471	7155
Long-Term Debt	5910	5908	5908	6057	6201	5140	5124	6347	6350	6451
Total Equity	16692	19016	18298	20580	20700	20558	18279	18827	20805	19382
D/E Ratio	0.35	0.31	0.32	0.29	0.29	0.23	0.26	0.31	0.28	0.30

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.6%	0.7%	0.6%	1.8%	1.8%	2.5%	2.0%	1.8%	2.9%	2.0%
Return on Equity	5.8%	5.1%	4.2%	11.9%	11.0%	13.8%	11.2%	10.1%	16.1%	11.2%
ROIC	4.2%	3.8%	3.2%	9.1%	8.4%	10.3%	8.3%	7.2%	11.4%	7.9%
Shares Out.	537	533	501	479	449	418	381	366	355	342
Revenue/Share	59.18	57.88	62.42	67.58	73.37	80.42	87.64	99.12	107.14	112.73
FCF/Share	7.60	6.50	3.22	5.62	8.58	6.73	8.14	9.75	10.92	13.87

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