



Cincinnati Financial Corporation (CINF)

Updated August 21st, 2019 by Lyn Alden

Key Metrics

Current Price:	\$110	5 Year CAGR Estimate:	-1.0%	Volatility Percentile:	23.1%
Fair Value Price:	\$58	5 Year Growth Estimate:	5.0%	Momentum Percentile:	97.9%
% Fair Value:	152%	5 Year Valuation Multiple Estimate:	-8.1%	Growth Percentile:	38.3%
Dividend Yield:	2.1%	5 Year Price Target	\$92	Valuation Percentile:	2.0%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	1.6%

Overview & Current Events

Cincinnati Financial Corporation (CINF) 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 \$17.8 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 money consisting of the time value between the premium income and insurance claims.

On July 30th, 2019, Cincinnati Financial reported results for the second quarter ended June 30th. Thanks to strong investment gains, the company reported earnings per share of \$2.59 for the quarter, up from \$1.32 for the same quarter last year. Earned premiums grew by 7% year over year for the quarter, and book value rose 15% during the first six months of the year due to the broad market recovery from December lows.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.32	\$1.68	\$0.74	\$2.57	\$2.81	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	\$3.75	\$4.79
BPS	\$29.38	\$30.87	\$31.20	\$33.45	\$37.24	\$40.15	\$39.21	\$42.94	\$50.29	\$48.11	\$54.0	\$65.70
DPS	\$1.57	\$1.59	\$1.61	\$1.62	\$1.66	\$1.74	\$1.82	\$1.90	\$1.98	\$2.09	\$2.24	\$2.72
Shares¹	162.0	163.0	162.0	163.0	163.0	163.7	163.9	164.4	163.9	162.8	165.0	165.0

Cincinnati Financial has grown earnings by 11.0% per year over the past 10 years and 7.1% over the past 5 years. Consensus analyst expectations are for flat earnings over the next two years. Book value, an important metric for insurance companies, has grown by 5.3% over the past 10 years and 4.1% over the past 5 years. Unlike many insurers, the company is not a significant buyer of its own shares for per-share growth.

The company makes most of its net income from its investment gains, and thus is highly dependent on bond interest rates and stock market performance. Compared to many insurers, Cincinnati Financial is a somewhat aggressive investor, and has a 36% allocation to equities. This gives the company better long-term portfolio growth, but a bit more volatility. Bond yields are at historic lows, which could put significant pressure on insurance company forward investment returns. We have a baseline forecast of 5.0% earnings and 4.0% book value growth over the next 5 years, but the estimate is variable depending on overall stock and bond performance in the United States over that time period.

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	22.3	29.3	19.2
Avg. P/B	0.82	0.92	0.95	1.10	1.28	1.21	1.38	1.62	1.46	1.55	2.04	1.4
Avg. Yld.	6.5%	5.6%	5.4%	4.4%	3.5%	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	3.0%

¹ Share count is in millions.

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Cincinnati Financial has averaged a 21.2 P/E ratio over the past decade, or closer to 20 if the anomalous high year in 2011 due to briefly low earnings is excluded. The P/B ratio has averaged 1.23. At the current valuation of 29.1 P/E and 2.02 P/B, the company is valued higher than its historical norm, and high compared to the modest growth rate of the company. We expect a partial mean reversion to 19.2 P/E and 1.4 P/B.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	119%	94.6%	218%	63.0%	59.1%	65.4%	51.1%	61.9%	72.3%	62.4%	59.7%	56.8%

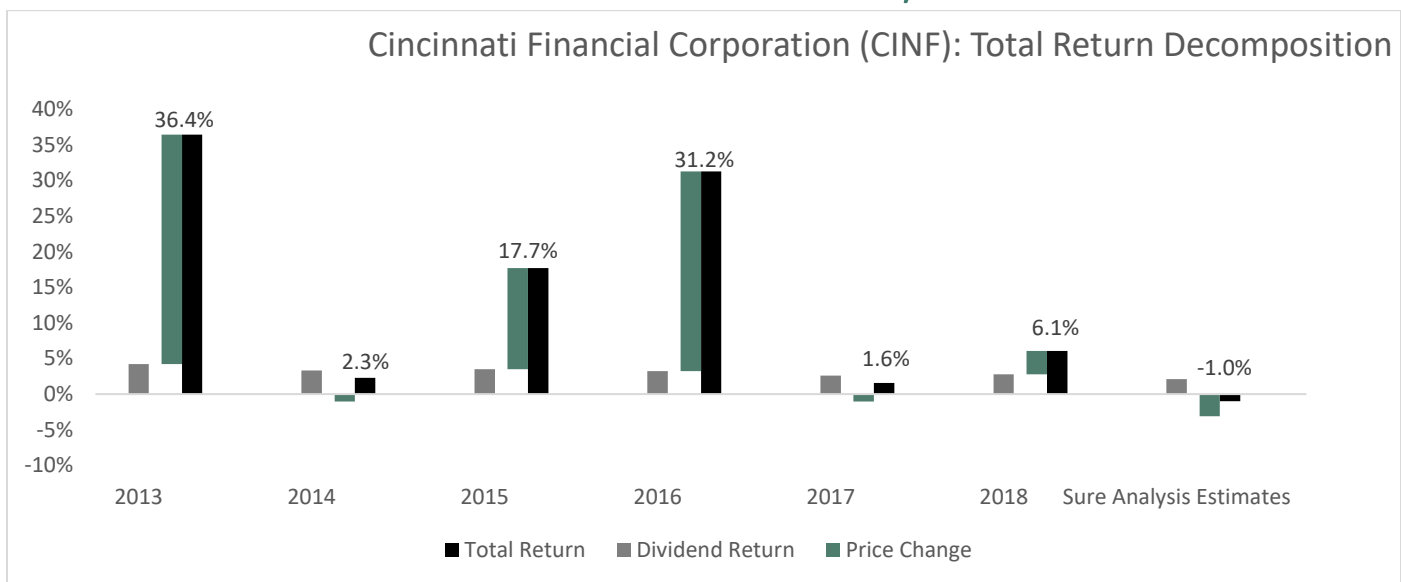
Cincinnati Financial has a strong dividend growth track record. Unlike many peers from the financial industry, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but the company nevertheless continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment grade credit rating, and due to the fact that Cincinnati Financial has 58 consecutive years of annual dividend increases, we believe that the risk of a dividend cut is low with this company.

Cincinnati Financial lacks durable competitive advantages. Its recognized brand and relatively large scale 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. The company is not a high-growth name, though, and we believe that earnings will rise at a mid-single digit pace. Cincinnati Financial is trading at a high valuation compared to what seems justified based on the company's growth outlook and historical valuation. We expect that valuation compression will likely be a meaningful headwind for the company's total returns going forward, resulting in annual returns of -1.0% as a baseline case. Cincinnati Financial earns a sell recommendation due to its historically high valuation levels despite being a high-quality business.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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