



The Travelers Companies (TRV)

Updated October 20th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$126	5 Year CAGR Estimate:	5.7%	Volatility Percentile:	13.0%
Fair Value Price:	\$110	5 Year Growth Estimate:	6.0%	Momentum Percentile:	41.4%
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Growth Percentile:	48.1%
Dividend Yield:	2.4%	5 Year Price Target	\$147	Valuation Percentile:	30.3%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	24.6%

Overview & Current Events

The Travelers Companies was founded in 1864 in Hartford, CT by two local businessmen. The company began with life and accident insurance but has expanded into various other types of coverage in the 150+ years since then. Today, it enjoys \$28 billion in annual revenue and a \$34 billion market capitalization. It is also a member of the Dow Jones Industrial Average, making it the only property casualty insurance provider in the prestigious index.

Travelers reported Q3 earnings on 10/18/18 and results were strong. Earnings-per-share came in at \$2.54 against consensus of \$2.27 and year-ago earnings of \$0.91 per share. Net investment income gained from both equities and fixed income, and written premiums increased 6%. The company's combined ratio improved substantially, falling from 103.2% to 96.6%, helping to improve profitability. We've maintained our estimate of \$10 in earnings-per-share for 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$5.24	\$6.32	\$6.31	\$3.25	\$6.21	\$9.46	\$10.56	\$10.87	\$10.13	\$7.27	\$10.00	\$13.40
DPS	\$1.19	\$1.26	\$1.44	\$1.64	\$1.79	\$1.96	\$2.15	\$2.38	\$2.68	\$2.83	\$3.08	\$4.30
Shares	585	520	435	393	377	354	322	296	280	271	270	265

After strong growth coming out of the Great Recession, Travelers has failed to regain its 2014 high of \$10.56 in earnings-per-share. We estimate \$10.00 for 2018 as a strong rebound from 2017 is expected, given that it was a very tough year for catastrophe insurers. In total, we are expecting 6% earnings-per-share growth annually in the coming years, following a much higher rate of growth for 2018.

Travelers will achieve this growth primarily from higher underwritten premiums and the buyback, although margins should play a part as well, as they did in Q3. We see low single digit gains from higher revenue as well as a similar tailwind from the company's famous buyback, which has reduced the float by more than half in just the past decade alone. Recent reductions have been smaller in size given the higher share price, but Travelers is committed to reducing its share count over time. Lower operating expenses should also provide a bit of a boost to earnings, but the Travelers story really is about higher premiums, lower catastrophe losses, and a lower share count.

The dividend has been raised in the mid-single digit range annually and we expect that will continue for the foreseeable future. Travelers is not an income stock any longer given the higher share price, but its 2.4% yield is respectable, and the payout will continue to grow at roughly the pace of earnings.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	8.7	7.0	8.2	17.4	10.3	8.8	8.8	9.7	11.2	17.2	12.6	11.0
Avg. Yld.	2.6%	2.8%	2.8%	2.9%	2.8%	2.3%	2.3%	2.3%	2.4%	2.3%	2.4%	2.9%

Travelers' price-to-earnings multiple has mostly stayed under 10 for the past decade but today, stands at 12.6. We therefore see the stock as overvalued given that our estimate of fair value is 11. Should the stock revert to a more normalized valuation, it would see a 2.7% headwind to total returns annually as a result.

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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The yield is near its historical lows at 2.4%, but we see the stagnating share price and rising dividend combining to send the yield near 3% in five years. Thus, we believe Travelers will become a strong income stock again.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
UW Mrgn	8.3%	10.2%	6.2%	-6.4%	1.9%	10.2%	10.1%	10.4%	5.7%	2.1%	5.0%	6.5%
Debt/A	77%	75%	76%	77%	76%	76%	76%	76%	77%	77%	77%	77%
Int. Cov.	11.0	13.3	12.1	4.5	9.4	14.7	14.8	13.7	12.2	8.4	12.0	15.0
Payout	23%	19%	22%	48%	28%	21%	20%	22%	25%	38%	31%	32%
Std. Dev.	33%	31%	14%	27%	14%	13%	15%	17%	17%	13%	15%	19%

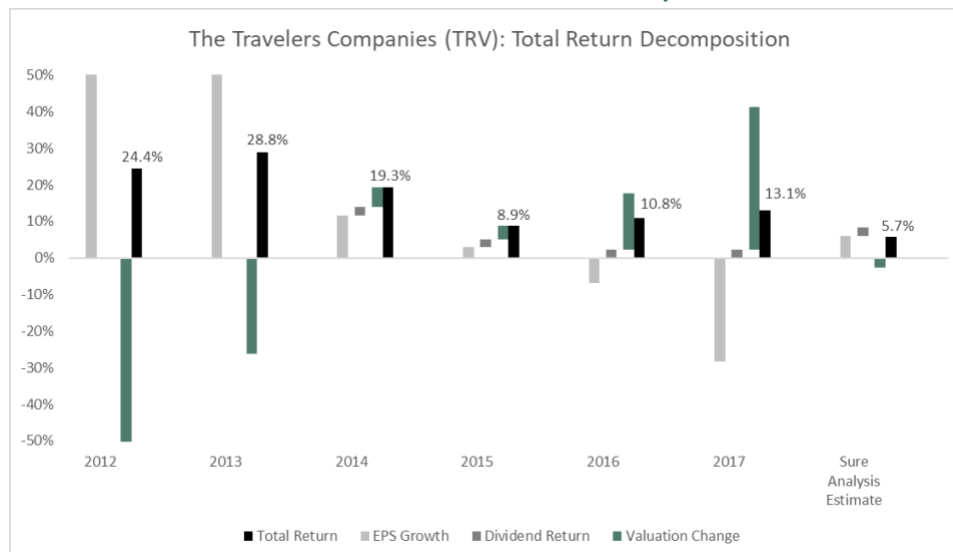
Travelers' quality metrics have oscillated over time along with its insurance losses. Underwriting margin peaked in the low-10% range but has not recovered. After hitting what should be a long-term trough last year at 2.1%, we see higher premiums and more normalized losses producing underwriting margins in the 5% to 6% range moving forward. Travelers continues to be conservatively-financed and does not have significant debt coming due in the next three years, so its balance sheet is in good shape and interest coverage remains robust. The payout ratio should remain in the low-30% area given that we are forecasting earnings and the dividend to grow at roughly congruent rates.

Travelers' main competitive advantages are in its immense scale and recognizable brand. Its size allows it to underwrite policies that others wouldn't be able to and its brand is well-known from its long history. Travelers is more susceptible to catastrophes than recessions, as we saw in 2017.

Final Thoughts & Recommendation

Travelers looks like a safe financial services provider with a decent growth outlook, but it is also trading meaningfully in excess of fair value. We therefore see total annual returns of just 5.7% annually in the coming years, consisting of the current 2.4% yield, 6% earnings-per-share growth and a 2.7% headwind from a lower valuation. Travelers will likely become an income stock again in the future but those interested in owning it should wait for a better entry price. While results continue to improve, we believe most of this is already priced into the stock. We therefore rate the stock as a hold given the high valuation and relatively modest dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	2447									
	7	24680	25112	25446	25740	26191	27174	26815	27625	28902
SG&A Exp.	3518	3366	3406	3556	3610	3757	3964	4094	4154	4170
D&A Exp.	821	797	812	802	827	867	864	818	826	813
Net Profit	2924	3622	3216	1426	2473	3673	3692	3439	3014	2056
Net Margin	11.9%	14.7%	12.8%	5.6%	9.6%	14.0%	13.6%	12.8%	10.9%	7.1%
Free Cash Flow	3138	4231	3054	2169	3230	3816	3693	3434	4202	3762
Income Tax	792	1089	1090	-74	693	1272	1397	1301	1039	674

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	109.63	109.56	105.66	104.58	104.94	103.81	103.08	100.18	100.25	103.48
Cash & Equivalents	350	255	200	214	330	294	374	380	307	344
Acc. Receivable	5835	5471	5497	22071	21390	20166	19920	19721	19618	20228
Goodwill & Int.	4054	3953	3867	3798	3746	3985	3915	3852	3848	4293
Total Liabilities	84313	82145	80181	80098	79533	79016	78242	76586	77024	79752
Accounts Payable	528	546	407	5575	5152	4626	4698	4670	4882	5049
Long-Term Debt	6181	6527	6611	6605	6350	6346	6349	6344	6437	6571
Total Equity	25230	27336	25407	24477	25405	24796	24836	23598	23221	23731
D/E Ratio	0.24	0.24	0.26	0.27	0.25	0.26	0.26	0.27	0.28	0.28

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.6%	3.3%	3.0%	1.4%	2.4%	3.5%	3.6%	3.4%	3.0%	2.0%
Return on Equity	11.3%	13.8%	12.2%	5.7%	9.9%	14.6%	14.9%	14.2%	12.9%	8.8%
ROIC	9.2%	11.1%	9.7%	4.5%	7.9%	11.7%	11.8%	11.3%	10.1%	6.9%
Shares Out.	585	520	435	393	377	354	322	296	280	271
Revenue/Share	40.50	43.40	52.05	60.51	66.03	69.97	79.34	85.43	94.93	103.74
FCF/Share	5.19	7.44	6.33	5.16	8.29	10.20	10.78	10.94	14.44	13.50

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

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