Allstate Corporation (ALL)

Updated February 25th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$119	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$38.0B
Fair Value Price:	$125	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/28/2020
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	04/01/2020
Dividend Yield:	1.8%	**5 Year Price Target**	$160	**Years of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	8%

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 $38 billion.

Allstate Corporation reported fourth quarter results on February 4th. The company reported consolidated revenue of $11.5 billion for the quarter, up 21% year-over-year. Property and casualty insurance premiums written totaled $9.2 billion, up 3.7% from the same period a year ago. Adjusted net income per share of $3.13 grew 97% over 4Q2018's EPS of $1.59. Catastrophe losses were down 69% for the quarter, to $295 million.

On a full-year basis, consolidated revenue grew 12.2% to $44.7 billion. Property and casualty insurance premiums written added up to $37 billion, a 5.6% YoY gain. Adjusted net income for the year gained 11.1% to $3.48 billion. On a per share basis, adjusted earnings of $10.43 increased an impressive 17.7% from last year's $8.86. Catastrophe losses for the year were down 10.4% to $2.6 billion.

Total policies in force have increased dramatically YoY, from 114 million to 146 million, a 28% increase. Over the last 12 months, adjusted net income return on common shareholders' equity was 16.9%, up 0.7% from a year ago. The company also repurchased $3 billion worth of outstanding shares during the year, reducing the share count by 4.9%. Book value per common share increased 27% YoY, to $73.12.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.83	$1.34	$4.34	$5.70	$5.42	$5.21	$4.89	$6.71	$8.86	$10.43	***$10.43***	***$13.31***
DPS	$0.80	$0.83	$0.88	$1.00	$1.12	$1.18	$1.29	$1.45	$1.84	$2.00	***$2.16***	***$3.17***
Shares[1]	533	501	479	449	418	381	366	355	342	326	***315***	***280***

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 2019.

The insurance industry is not a high-growth industry, but Allstate surprisingly managed to grow its net premiums written considerably in the most recent years, and they continued this streak in 4Q2019, up 4.4% YoY. Higher contract volumes bode well for the company's near-term growth. If catastrophe losses continue to decline after improving 10% in 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, interest rates appear to be stable today after a series of cuts. The company has very successfully reduced its share count throughout the last decade. It is likely that share repurchases will remain a key

[1] in millions.

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.

factor for earnings-per-share growth going forward as well. In the last 12 months, the company has repurchased 4.9% of outstanding shares. From 2017 to 2020 (not including), ALL has increased the proportionate ownership of a common share by 14.7% through share repurchases. The company has approved another $3 billion share repurchase plan for 2020; combined with the 5-year average dividend rate of 13% growth make Allstate a shareholder-friendly company.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.8	21.6	8.2	8.7	11.0	12.6	13.8	13.1	10.3	13.5	***11.4***	***12.0***
Avg. Yld.	2.6%	2.9%	3.1%	1.5%	1.9%	1.8%	1.9%	1.6%	2.2%	1.9%	***1.8%***	***2.0%***

Allstate Corporation trades at 11.4 times this year's expected net earnings right now. This is 5% below the 10-year average PE of 12.4. We believe that shares are undervalued right here, which results in a tailwind to the multiple of 1.0%. Allstate's dividend yield is in-line with that of the broad market at 1.8%, as a result, it does not look like a compelling investment for yield-seeking investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	62%	20%	18%	21%	23%	26%	22%	21%	19%	***21%***	***24%***

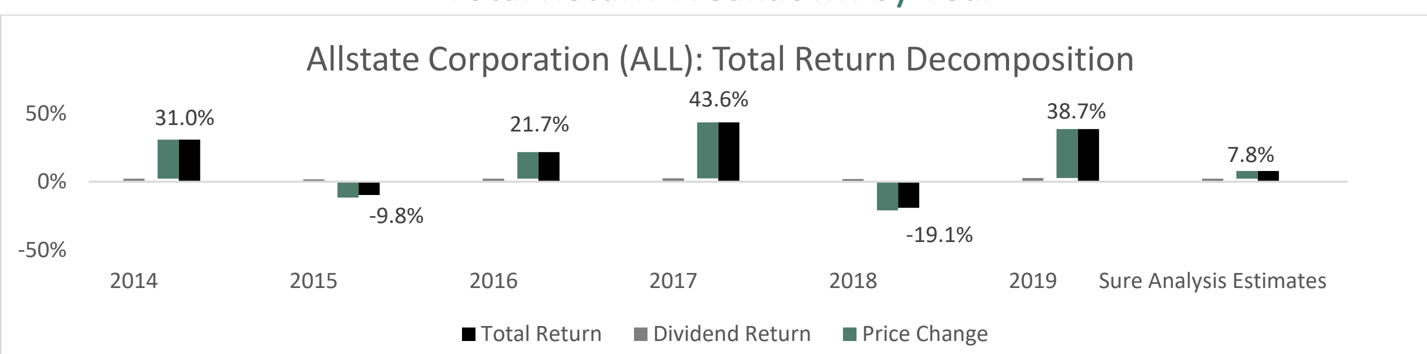
Allstate saw its profits shrink considerably during the last financial crisis, which is why the company cut its dividend during those troubled times. The dividend was cut from 2008 to 2009 as well as from 2009 to 2010. The dividend payout ratio is quite low, though, and another financial crisis the size 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. We are forecasting that Allstate can increase earnings by 5.0% over the mid-term. In addition, we believe the stock is slightly undervalued, and could increase 1% due to multiple expansion. Allstate currently yields 1.8%, which may cause income investors to shy away from the stock. The total return outlook is decent at 7.8%, which is why we rate the insurer a hold right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	31400	32654	33315	34507	35239	35653	37399	39407	39815	44675
SG&A Exp.	3542	3739	4118	4387	4341	4081	4939	5442	5869	5804
D&A Exp.	94	252	388	368	366	371	382	483	511	647
Net Profit	911	787	2306	2280	2850	2171	1877	3189	2252	4847
Net Margin	2.9%	2.4%	6.9%	6.6%	8.1%	6.1%	5.0%	8.1%	5.7%	10.8%
Free Cash Flow	3527	1683	2769	4035	2948	3313	3680	4015	4898	4696
Income Tax	189	172	1000	1116	1386	1111	877	802	492	1242

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	130.87	125.19	126.95	123.52	108.48	104.66	108.61	112.42	112.25	119.95
Cash & Equivalents	562	776	806	675	657	495	436	617	499	338
Acc. Receivable	4839	12171	13818	12858	13955	14062	14342	14707	15719	15683
Goodwill & Int.	874	1242	1240	1243	1219	1219	1219	2737	3243	3026
Total Liab. ($B)	111.83	106.87	106.37	102.04	86.18	84.63	88.04	89.87	90.94	93.95
Accounts Payable	N/A	2588	4010	4664	5694	5892	6184	6471	7155	6912
Long-Term Debt	5908	5908	6057	6201	5140	5124	6347	6350	6451	6631
Total Equity	19016	18298	20580	20700	20558	18279	18827	20805	19382	23750
D/E Ratio	0.31	0.32	0.29	0.29	0.23	0.26	0.31	0.28	0.30	0.26

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.7%	0.6%	1.8%	1.8%	2.5%	2.0%	1.8%	2.9%	2.0%	4.2%
Return on Equity	5.1%	4.2%	11.9%	11.0%	13.8%	11.2%	10.1%	16.1%	11.2%	22.5%
ROIC	3.8%	3.2%	9.1%	8.4%	10.3%	8.3%	7.2%	11.4%	7.9%	16.1%
Shares Out.	533	501	479	449	418	381	366	355	342	326
Revenue/Share	57.88	62.42	67.58	73.37	80.42	87.64	99.12	107.14	112.73	133.96
FCF/Share	6.50	3.22	5.62	8.58	6.73	8.14	9.75	10.92	13.87	14.08

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

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