CNA Financial Corp. (CNA)

Updated March 3rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$11.8 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	02/21/20
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	03/12/20
Dividend Yield:	3.4%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	5.7%

Overview & Current Events

Founded in 1897 and headquartered in Chicago, IL, CNA Financial is one of the largest U.S. Commercial Property and Casualty insurance companies. The company operates under five segments: Specialty, Commercial, International, Life & Group and Corporate & Other – offering property and casualty coverage, life, accident and health insurance and retirement products and annuities. Loews Corporation (L) owns approximately 89% of CNA's shares. Last year the $12 billion market cap company, serving over 1 million businesses and professionals, generated $1 billion in profit.

On February 10th, 2020 CNA reported Q4 and full year 2019 results for the period ending December 31st, 2020. For the quarter net income came in at $273 million or $1.00 per share compared to a -$0.31 loss in Q4 2018. Core income - which excludes net investment gains or losses - equaled $265 million or $0.97 per share compared to a -$0.08 loss in the prior year quarter. The underlying combined ratio, which divides the sum of claim-related losses and business expenses by premiums earned, improved to 94.9% from 98.0%.

For the year CNA generated $1.0 billion in net income or $3.67 per share, compared to $2.98 in 2018, driven by a combined ratio that improved for the third straight year from 95.4% to 94.8% and 5% premium growth in the Property & Casualty segment. Core income equaled $979 billion or $3.59 per share compared to $3.10 in the prior year. Adjusted book value per share totaled $44.81 compared to $44.55 previously.

CNA also declared a $0.37 quarterly common dividend, representing a 5.7% increase, along with a $2.00 special dividend, both payable March 12th, 2020. This marks the company's fourth year of increasing its common dividend and sixth consecutive $2.00 annual special dividend.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.20	$2.28	$2.17	$3.85	$3.14	$1.90	$3.05	$3.38	$3.11	$3.59	***$3.80***	***$4.20***
DPS	---	$0.40	$0.55	$0.80	$1.00	$1.00	$1.00	$1.10	$1.30	$1.40	***$1.48***	***$1.64***
Shares[1]	269.1	269.3	269.4	269.7	270.0	270.3	270.5	271.2	271.5	271.4	***271.4***	***271.4***

Note that we are using core earnings in the above table, as we believe this better reflects the long-term earnings power of the company without short-term investment fluctuations included.

CNA has put together a volatile, but positive business record over the last decade. This is to be expected from an insurer, as premiums tend to be more or less consistent, but claims will vary dramatically. The above 10 year annualized growth rate of 5.6% could be too ambitious given that 2010 was coming off a low. If measured from 2009, CNA has grown earnings-per-share by less than 0.5% per annum. And from 2007, the growth rate has actually been negative.

While this may not set a strong precedent for growth, we are of the opinion that a slow and steady approach is warranted in this industry. Insurers do not know their liabilities for many years, and it can be easy to underprice policies to chase growth. CNA could generate growth from this point via ongoing policy price increases, a combined ratio that

[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.

continues to improve and higher interest rates over the long-term, which would help the fixed maturity holdings. However, these items are far from certain. We are forecasting 2% growth over the intermediate term.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.1	11.9	12.9	9.2	12.7	20.2	11.0	14.1	15.4	12.7	***11.5***	***13.0***
Avg. Yld.	---	1.5%	2.0%	2.3%	2.5%	2.6%	3.0%	2.3%	2.7%	3.1%	***3.4%***	***3.0%***

Over the past decade shares of CNA have traded hands with an average multiple of 13 times earnings. We believe this is a reasonable starting place, given the volatile results of the business, low growth expectation and compared to other companies in the industry. With shares currently trading at 11.5 times our earnings estimate, this implies the potential for a small valuation tailwind. Note that while CNA has paid a special dividend since 2014, we have not included this in the forecast. As such, this component could very well be understated in our dividend return estimates presented above.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	18%	25%	21%	32%	53%	33%	33%	42%	39%	***39%***	***39%***

While CNA's business results have been markedly positive during the last decade, we do not believe the firm has a material competitive advantage given that insurance products are commodity-like in nature.

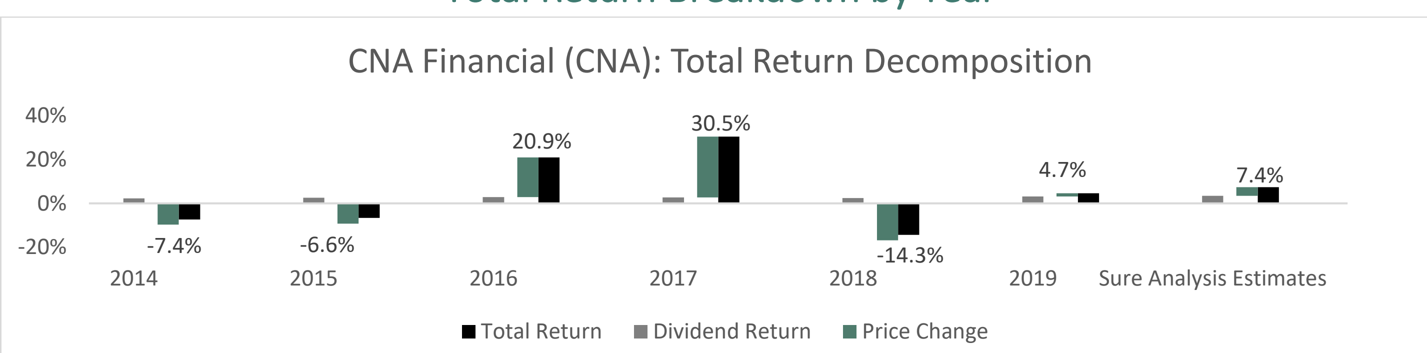
CNA is not necessarily beholden to economic conditions as much as it is to the timing of insurance related losses. That being said, many of the company's customers are sensitive to recessions, which will put pressure on the company in lesser times. During the last recession, CNA posted earnings-per-share of $3.90, $1.91, $3.42, $2.20 and $2.28 during the 2007 through 2011 stretch. Moreover, the dividend was cut from $0.45 to zero during 2009 and 2010, before being reinstated at $0.40 in 2011. A cautionary tale for what could happen during the next downturn.

Today the company appears to be in reasonable financial shape, with A+ and A2 ratings from S&P and Moody's. Moreover, we are encouraged by the annual special dividend as this shows both a penchant for returning capital to shareholders and flexibility if the firm needs it in the future.

Final Thoughts & Recommendation

CNA Financial has put together a positive, albeit volatile record in the past decade. Moreover, the growth rate has not been especially strong. Still, this is to be expected in the industry and we are encouraged by the capital allocation decisions being made. We are projecting 7.4% annual total return potential, stemming from 2% growth, a small valuation tailwind and the 3.4% starting dividend yield, which may be understated if special dividends continue to accrue. Given the average expected returns, we rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$9,209	$8,949	$9,364	$9,932	$9,692	$9,101	$9,366	$9,542	$10,134	$10,767
D&A Exp.	$78	$79	$125	$101	$83	$84	$77	$88	$79	$68
Net Profit	$690	$612	$628	$937	$691	$479	$859	$899	$813	$1,000
Net Margin	7.5%	6.8%	6.7%	9.4%	7.1%	5.3%	9.2%	9.4%	8.0%	9.3%
Free Cash Flow	-$142	$1,618	$1,156	$1,113	$1,369	$1,262	$1,270	$1,152	$1,128	$1,114
Income Tax	$333	$242	$239	$361	$319	$70	$278	$411	$151	$223

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	$55,331	$55,110	$58,522	$57,194	$55,566	$55,045	$55,233	$56,567	$57,152	$60,612
Cash & Equiv.	$77	$75	$156	$195	$190	$387	$271	$355	$310	$242
Accounts Rec.	$1,557	$7,615	$8,040	$7,996	$6,630	$6,531	$6,625	$6,553	$6,749	$6,628
Goodwill & Intan.	$141	$123	$267	$248	$237	$231	$214	$220	$214	$216
Total Liabilities	$43,807	$43,622	$46,208	$44,543	$42,772	$43,289	$43,264	$44,323	$45,935	$48,397
Long-Term Debt	$2,651	$2,608	$2,570	$2,560	$2,559	$2,560	$2,710	$2,858	$2,680	$2,679
Book Value	$10,954	$11,488	$12,314	$12,651	$12,794	$11,756	$11,969	$12,244	$11,217	$12,215
D/E Ratio	0.24	0.23	0.21	0.20	0.20	0.22	0.23	0.23	0.24	0.22

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.2%	1.1%	1.1%	1.6%	1.2%	0.9%	1.6%	1.6%	1.4%	1.7%
Return on Equity	6.7%	5.5%	5.3%	7.5%	5.4%	3.9%	7.2%	7.4%	6.9%	8.5%
ROIC	5.0%	4.3%	4.3%	6.2%	4.5%	3.2%	5.9%	6.0%	5.6%	6.9%
Shares Out.	269.5	269.6	269.8	270.2	270.6	270.7	271.1	272.1	272.5	272.5
Revenue/Share	$34.17	$33.19	$34.71	$36.76	$35.82	$33.62	$34.55	$35.07	$37.19	$39.51
FCF/Share	-$0.53	$6.00	$4.28	$4.12	$5.06	$4.66	$4.68	$4.23	$4.14	$4.09

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