Allstate Corporation (ALL)

Updated August 11th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$30B
Fair Value Price:	$120	**5 Year Growth Estimate:**	3.2%	**Ex-Dividend Date:**	08/27/2020
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.4%	**Dividend Payment Date:**	10/01/2020
Dividend Yield:	2.2%	**5 Year Price Target**	$140	**Years of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 $30 billion.

Allstate Corporation reported second quarter results on August 4th. The company reported consolidated revenue of $11.2 billion for the quarter, a 0.5% gain year-over-year. Property and casualty insurance premiums totaled $9.2 billion, up 2.6% from the same period a year ago. Adjusted net income per share of $2.46 grew 12.8% over 2Q2019's EPS of $2.18. Catastrophe losses were up 10.6% for the quarter to $1.2 billion. Fortunately, year-to-date, catastrophe losses are actually down 20% from last year.

Total policies in force have continued to increase dramatically YoY, from 130 million to 168 million, a 29% increase. The trailing twelve months adjusted net income return on common shareholders' equity as of June 30th is 17.9%, 4.4 points higher than last year's 13.5%. The company's $89.6 billion portfolio grew 5% in the quarter and 5.7% over the last 12 months. The plan to repurchase $3 billion of shares in 2020 is still on despite the ongoing coronavirus pandemic. The company returned $563 million to shareholders in the quarter through dividends and share repurchases. In addition to these results, book value per share increased 17.7% from the first half of 2019, from $67.28 to $79.21.

An agreement to acquire National General Holdings Corp. was announced and is expected to enhance the corporation's strategic position in the independent channel. The company stresses that this will not impact the $3 billion share repurchase program.

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	***$12.00***	***$14.05***
DPS	$0.80	$0.83	$0.88	$1.00	$1.12	$1.18	$1.29	$1.45	$1.84	$2.00	***$2.16***	***$2.76***
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 2020 through the pandemic. 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

[1] in millions.

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 reduced the share count by 4.5%. From 2017 to 2020 (not including), ALL has increased the proportionate ownership of a common share by 14.7% through share repurchases. The company is forecasting to complete its $3 billion share repurchase plan by end of 2021; 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	***8.1***	***10.0***
Avg. Yld.	2.6%	2.9%	3.1%	1.5%	1.9%	1.8%	1.9%	1.6%	2.2%	1.9%	***2.2%***	***2.0%***

Allstate Corporation trades at 8.1 times this year's expected net earnings right now. This is 35% 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 4.4%. Allstate's dividend yield is in-line with that of the broad market at 2%, as a result, it does not look like a compelling investment for yield-seeking investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

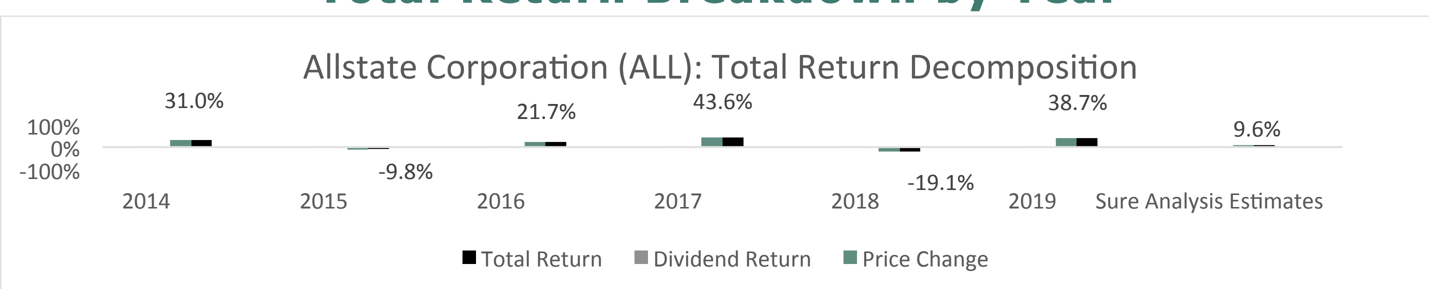
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	62%	20%	18%	21%	23%	26%	22%	21%	19%	***18%***	***20%***

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 there have been no cuts to earnings estimates for the company due to the coronavirus pandemic. Allstate even provided a Shelter-in-Place Payback of over $600 million to customers since they are driving less due to social distancing, and adjusted net income is still growing significantly. 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 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 total returns of 9.6% in the near-term, and the stock is trading at 81% fair value for a healthy margin of safety. As a result of positive forecasts amid coronavirus, and recent growth, we rate ALL a buy.

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 11th, 2020 by Quinn Mohammed

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.