Cincinnati Financial Corp. (CINF)

Updated August 18th, 2020 by Felix Martinez

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	0.5%	**Market Cap:**	$12.76 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	09/15/2020
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	10/15/2020
Dividend Yield:	3.1%	**5 Year Price Target**	$67	**Years Of Dividend Growth:**	59
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.1%

Overview & Current Events

Cincinnati Financial Corp. (CINF) is an insurance company founded in 1950. It offers business, home, auto insurance, and financial products, including life insurance, annuities, property, and casualty insurance. Cincinnati Financial is headquartered in Fairfield, Ohio, and is trading with a market capitalization of $12.76 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 27, 2020, Cincinnati Financial reported results for the second quarter Fiscal Year (FY)2020. For the quarter, total revenues were up 42%, from $1.9 billion in 2Q19 to now $2.7 billion. So far, for the first half of FY2020, the company revenue drop (36)% compared to the first half of FY2019. Net income of $909 million, or $5.63 per share, compared with $428 million, or $2.59 per share, in the second quarter of 2019. The $481 million in net income, primarily due to the after-tax net effect of a $550 million increase in net investment gains partially offset by a $70 million decrease in after-tax property-casualty underwriting income, including $79 million from catastrophe losses related to weather or civil unrest. The company also saw a decline of (5)% in book value to $57.56 per share, which is $2.99 per share lower since year-end.

We lower our estimated Earnings Per Share (EPS) from the last report from $3.50 to now $3.19 per share. This is a decrease of (8.9)%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.68	$0.74	$2.40	$2.81	$2.66	$3.56	$3.07	$2.74	$3.35	$4.20	***$3.19***	***$3.35***
DPS	$1.59	$1.61	$1.62	$1.66	$1.76	$1.84	$1.92	$2.00	$2.12	$2.24	***$2.40***	***$3.06***
BPS	$30.87	$31.20	$33.45	$37.24	$40.15	$39.21	$42.94	$50.29	$48.11	$60.50	***$57.56***	***$60.50***
Shares[1]	163.0	163.0	163.0	165.0	165.0	165.0	167.0	166.0	165.0	165.0	***161.5***	***161.5***

Cincinnati Financial has grown earnings by 10.7% per year over the past nine years and -0.3% over the past five years. Consensus analyst expectations are for relatively flat earnings over the next two years. Book value, a significant metric for insurance companies, has grown by 7.8% over the past nine years and 8.0% over the past five 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 is highly dependent on bond interest rates and stock market performance. Compared to many insurers, Cincinnati Financial is a somewhat aggressive investor and a 39.3% 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 forward investment returns. We have a baseline forecast of 1.0% earnings and 1.0% book value growth over the next five years, but the estimate is variable depending on overall stock and bond performance in the United States over that period.

[1] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.8	40.3	14.3	17	18.3	15.2	22.7	26.8	22.3	25.0	***24.7***	***20.0***
Avg. P/B	0.92	0.95	1.1	1.28	1.21	1.38	1.62	1.46	1.55	3.8	***1.4***	***2.0***
Avg. Yld.	5.6%	5.4%	4.4%	3.5%	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	***3.9%***	***4.2%***

Cincinnati Financial has averaged a 21.9 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 1.5. At the current valuation of 24.7 P/E and 1.4 P/B, the company is higher than its historical norm and modestly high compared to the company's modest growth rate. We expect a mean reversion to 20 P/E and 1.6 P/B, implying a notable headwind, as the base case.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	95%	218%	68%	59%	66%	52%	63%	73%	63%	53%	***75%***	***91%***

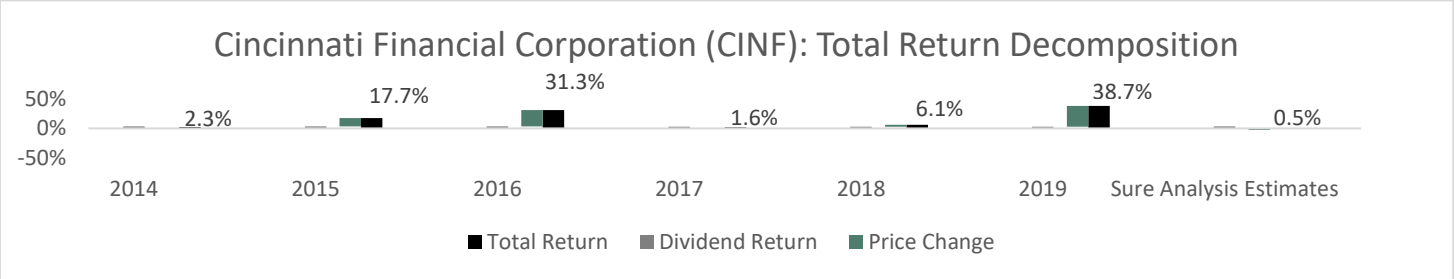
Cincinnati Financial has a strong dividend growth track record. Unlike many peers from the financial industry, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but the company nevertheless continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment-grade credit rating, and because Cincinnati Financial has 59 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 help, and to that end, Cincinnati Financial have 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 many companies in the financial sector, either. The company Debt to Equity ratio is fair with a D/E ratio of 1.7.

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 meager mid-single-digit pace. Cincinnati Financial is trading at a high valuation compared to what seems justified based on its growth outlook and historical valuation. Since our last report, the company had a price of $59, and the stock was undervalued to our fair price, and we had a Buy recommendation. Since the last report, the company share price has increased by 31.7%. Since the stock price of Cincinnati Financial has gone up too much, the company earns a Sell recommendation due to its high valuation levels compared to historical valuation levels with an estimated total return of 0.5% annually for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3772	3803	4111	4531	4945	5142	5449	5732	5407	7924
D&A Exp.	41	42	44	50	51	52	48	55	63	72
Net Profit	375	164	421	517	525	634	591	1045	287	1997
Net Margin	9.9%	4.3%	10.2%	11.4%	10.6%	12.3%	10.8%	18.2%	5.3%	
Free Cash Flow	514	240	632	789	864	1065	1102	1036	1161	1184
Income Tax	123	9	145	197	196	247	221	-315	-36	475

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	15095	15635	16548	17662	18748	18888	20386	21843	21935	25408
Cash & Equivalents	385	438	487	433	591	544	777	657	784	767
Acc. Receivable	1015	1828	1944	2014	2073	2102	2212	2155	2260	2520
Total Liabilities	10063	10602	11095	11592	12175	12461	13326	13600	14102	15544
Accounts Payable	856	925	931	894	835	821	807	811	820	
Long-Term Debt	5032	5033	5453	6070	6573	6427	7060	8243	7833	827
Total Equity	5032	5033	5453	6070	6573	6427	7060	8243	7833	9864
D/E Ratio	0.17	0.18	0.17	0.15	0.13	0.13	0.11	0.10	0.10	0.08

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.5%	1.1%	2.6%	3.0%	2.9%	3.4%	3.0%	4.9%	1.3%	8.4%
Return on Equity	7.7%	3.3%	8.0%	9.0%	8.3%	9.8%	8.8%	13.7%	3.6%	22.6%
ROIC	6.5%	2.8%	6.8%	7.7%	7.3%	8.7%	7.8%	12.4%	3.2%	20.6%
Shares Out.	163.0	162.0	163.0	163.0	163.7	163.9	164.4	163.9	162.8	165.0
Revenue/Share	23.10	23.29	25.11	27.39	29.95	31.05	32.73	34.53	32.87	48.00
FCF/Share	3.15	1.47	3.86	4.77	5.23	6.43	6.62	6.24	7.06	7.17

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

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