



Allstate Corporation (ALL)

Updated February 15th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$104	5 Year CAGR Estimate:	10.8%	Market Cap:	\$31.5B
Fair Value Price:	\$126	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	02/28/2021
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date²:	04/01/2021
Dividend Yield:	2.2%	5 Year Price Target	\$161	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 \$31.5 billion.

Allstate Corporation reported fourth quarter results on February 3rd. The company reported consolidated revenue of \$12 billion for the quarter, a 4.8% gain year-over-year. Property and casualty insurance premiums totaled \$9.3 billion, up 1.1% from \$9.2 billion from the same period a year ago. Adjusted net income per share of \$5.87 grew 88% over 4Q2019's EPS of \$3.13. Catastrophe losses were up 44% to \$424 million.

For the full year 2020, consolidated revenues of \$44.8 billion was only up 0.3% from \$44.7 billion in 2019. Adjusted net income per share gained 41% year-over-year to \$14.73 from \$10.43. Catastrophe losses for the full year were up 10% to \$2.8 billion.

Total policies in force have continued to increase dramatically YoY, from 146 million to 176 million, a 21% increase. The fiscal 2020 adjusted net income return on common shareholders' equity as of December 31st is 19.8%, 2.9 points higher than last year's 16.9%. The company's \$94.2 billion portfolio grew 7.1% for the full year. The company repurchased 5.5% of the common shares outstanding in 2020, worth \$1.7 billion. In addition to these results, book value per share increased 25% from 2019, from \$73.12 to \$91.50.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.34	\$4.34	\$5.70	\$5.42	\$5.21	\$4.89	\$6.71	\$8.86	\$10.43	\$12.30	\$12.62	\$16.11
DPS	\$0.83	\$0.88	\$1.00	\$1.12	\$1.18	\$1.29	\$1.45	\$1.84	\$2.00	\$2.16	\$2.16	\$2.76
Shares³	501.0	479.0	449.0	418.0	381.0	366.0	355.0	342.0	326.0	314.0	314.0	280.0

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 since 2019. We are forecasting record profits in 2021 as well.

The insurance industry is not a high-growth industry, but Allstate has managed to grow earnings considerably in recent years, exceeding 20% in the past 5 and 10 years. Higher contract volumes bode well for the company's near-term growth. 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 are forecasted to be near zero for the next while. The company has very successfully reduced its share count throughout the last decade. It is likely that share

¹ Estimate based on last year's date

² Estimate based on last year's date

³ in millions.

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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 5.5%. The company is focused on returning value directly to shareholders.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	21.6	8.2	8.7	11	12.6	13.8	13.1	10.3	13.5	7.5	8.2	10.0
Avg. Yld.	2.9%	3.1%	1.5%	1.9%	1.8%	1.9%	1.6%	2.2%	1.9%	2.1%	2.1%	1.7%

Allstate Corporation trades at 8.2 times this year's expected net earnings right now. This is 32% below the 10-year average PE of 12. We believe that shares are undervalued right here, which results in a tailwind to the multiple of 3.9%. Allstate's dividend yield is in-line with that of the broad market at 2.1%, as a result, it does not look like a compelling investment for yield-seeking investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

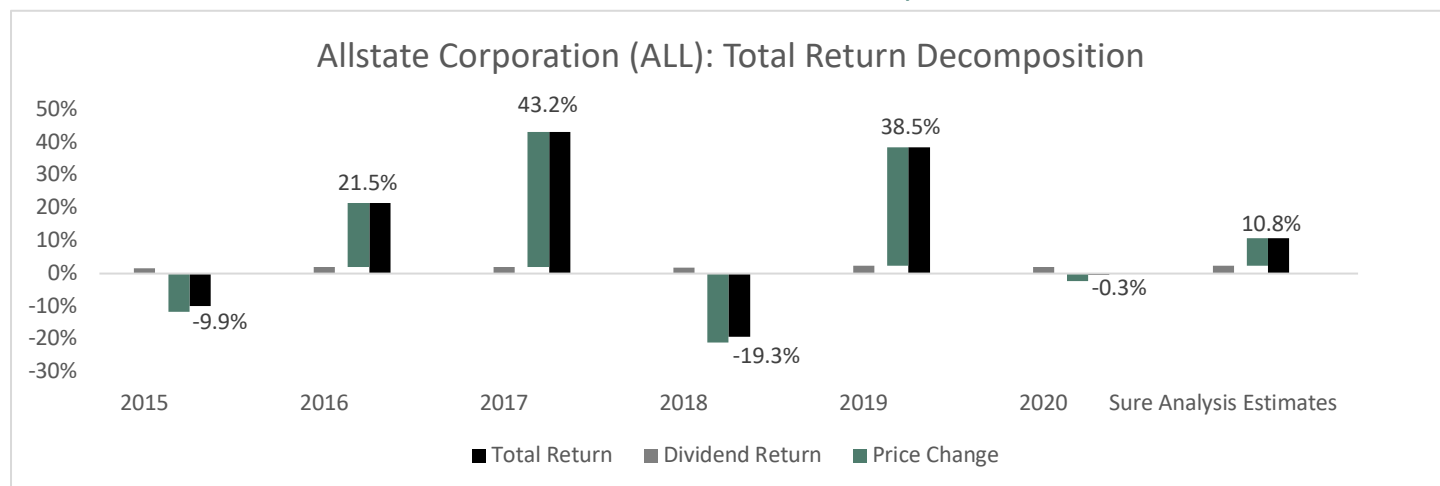
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62%	20%	18%	21%	23%	26%	22%	21%	19%	18%	17%	17%

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 \$900 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 and a very shareholder friendly company. We are forecasting total returns of 10.8% in the near-term, and the stock is trading at 82% fair value for a healthy margin of safety. As a result of positive forecasts despite coronavirus, and recent growth, we rate ALL a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	32654	33315	34507	35239	35653	37399	39407	39815	44675	44791
SG&A Exp.	3739	4118	4387	4341	4081	4939	5442	5869	5804	5681
D&A Exp.	252	388	368	366	371	382	483	511	647	
Net Profit	787	2306	2280	2850	2171	1877	3189	2252	4847	5576
Net Margin	2.4%	6.9%	6.6%	8.1%	6.1%	5.0%	8.1%	5.7%	10.8%	12.4%
Free Cash Flow	1683	2769	4035	2948	3313	3680	4015	4898	4696	
Income Tax	172	1000	1116	1386	1111	877	802	492	1242	1383

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	125.19	126.95	123.52	108.48	104.66	108.61	112.42	112.25	119.95	125.99
Cash & Equivalents	776	806	675	657	495	436	617	499	338	377
Acc. Receivable	12171	13818	12858	13955	14062	14342	14707	15719	15683	15699
Goodwill & Int.	1242	1240	1243	1219	1219	1219	2737	3243	3026	2544
Total Liab. (\$B)	106.87	106.37	102.04	86.18	84.63	88.04	89.87	90.94	93.95	95770
Accounts Payable	2588	4010	4664	5694	5892	6184	6471	7155	6912	
Long-Term Debt	5908	6057	6201	5140	5124	6347	6350	6451	6631	7825
Total Equity	18298	20580	20700	20558	18279	18827	20805	19382	23750	28247
D/E Ratio	0.32	0.29	0.29	0.23	0.26	0.31	0.28	0.30	0.26	0.26

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.6%	1.8%	1.8%	2.5%	2.0%	1.8%	2.9%	2.0%	4.2%	4.5%
Return on Equity	4.2%	11.9%	11.0%	13.8%	11.2%	10.1%	16.1%	11.2%	22.5%	21.4%
ROIC	3.2%	9.1%	8.4%	10.3%	8.3%	7.2%	11.4%	7.9%	16.1%	15.8%
Shares Out.	501	479	449	418	381	366	355	342	326	314
Revenue/Share	62.42	67.58	73.37	80.42	87.64	99.12	107.14	112.73	133.96	141.97
FCF/Share	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.