



Cincinnati Financial Corp. (CINF)

Updated February 14th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$92	5 Year CAGR Estimate:	4.1%	Market Cap:	\$14.9 B
Fair Value Price:	\$77	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/16/2021
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	4/15/2021
Dividend Yield:	2.7%	5 Year Price Target	\$98	Years Of Dividend Growth:	60
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	5%

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, trading with a \$14.9 billion market capitalization. As an insurance company, Cincinnati Financial makes money in two ways. It earns income from premiums on policies written and by investing its float, or the large sum of money consisting of the time value between the premium income and insurance claims.

On February 10, 2021, Cincinnati Financial reported results for the fourth quarter and full year of Fiscal Year (FY)2020. Total revenues were up 5% for the quarter, from \$1.44 billion in 4Q19 to now \$1.52 billion. In the twelve months of FY2020, the company revenue increased 7% compared to the full year of FY2019. Net income increased by 68% to \$1,049 million, or \$6.47 per share, compared with \$626 million, or \$3.79 per share, in the fourth quarter of 2019. For the year, net income is (39)% less than in FY2019. The Company also saw an increase of 11% in book value to \$67.04 per share for the year from \$60.55 per share in 2019. The Company also increased its dividend from \$0.60 per share per quarter to now \$0.63 per share per quarter. This is a 5% increase to the dividend. The Company has now successfully increased its dividend for 60 consecutive years.

We increased our estimated Earnings Per Share (EPS) for 2021 to \$3.85 per share. This represents a 17.4% increase compared to FY2020 earnings.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.74	\$2.40	\$2.81	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	\$4.20	\$3.28	\$3.85	\$4.91
BPS	\$1.61	\$1.62	\$1.66	\$1.76	\$1.84	\$1.92	\$2.00	\$2.12	\$2.24	\$2.40	\$2.52	\$3.22
DPS	\$31.20	\$33.45	\$37.24	\$40.15	\$39.21	\$42.94	\$50.29	\$48.11	\$60.50	\$67.04	\$73.74	\$118.76
Shares¹	163.0	163.0	165.0	165.0	165.0	167.0	166.0	165.0	165.0	162.0	162.0	162.0

Cincinnati Financial has grown earnings by 18% per year over the past nine years and 4.6% over the past five years. Consensus analyst expects that earnings will grow by 5% for the next five years. Book value, a significant metric for insurance companies, has increased by 8.9% over the past nine years and 11.4% over the past five years. Unlike many insurers, the company is not a significant buyer of its 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 5% earnings and 10% 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. Management expects to grow the book value by 10% - 15% per year.

¹ Share count is 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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	40.3	14.3	17	18.3	15.2	22.7	26.8	22.3	25.0	26.6	24.0	20.0
Avg. P/B	0.95	1.1	1.28	1.21	1.38	1.62	1.46	1.55	3.8	1.3	1.3	1.6
Avg. Yld.	5.4%	4.4%	3.5%	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	2.6%	2.7%	3.3%

Cincinnati Financial has averaged a 22.9 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 1.6. At the current valuation of 24 P/E and 1.3 P/B, the company is higher than its historical norm and modestly high compared to its modest growth rate. We expect a mean reversion to 20 P/E, implying a notable headwind, as the base case.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	218%	68%	59%	66%	52%	63%	73%	63%	53%	73%	65%	65%

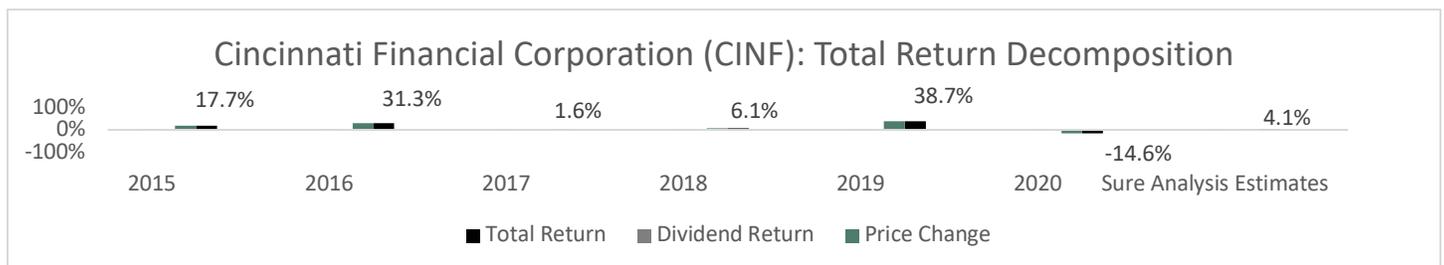
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment-grade credit rating, and because Cincinnati Financial has 60 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. The Company's balance sheet is strong, with interest coverage of 19.2 times and a Debt to Equity ratio of 0.1.

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 report on May 4th, the company traded hand for \$59, and the stock was undervalued to our fair price, and we had a Buy recommendation. Since that report, the company share price has increased by 53%. Because 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 4.1% annually for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue						5449	5732	5407	7924	7536
D&A Exp.						48	55	63	72	
Net Profit						591	1045	287	1997	1216
Net Margin						10.8%	18.2%	5.3%	25.2%	16.1%
Free Cash Flow						1102	1036	1161	1184	
Income Tax						221	-315	-36	475	283

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets						20386	21843	21935	25408	27542
Cash & Equivalents						777	657	784	767	900
Acc. Receivable						2212	2155	2260	2520	2532
Total Liabilities						13326	13600	14102	15544	16753
Long-Term Debt						807	811	820	827	899
Total Equity						7060	8243	7833	9864	10789
D/E Ratio						0.11	0.10	0.10	0.08	0.08

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						3.0%	4.9%	1.3%	8.4%	4.6%
Return on Equity						8.8%	13.7%	3.6%	22.6%	11.8%
ROIC						7.8%	12.4%	3.2%	20.6%	10.9%
Shares Out.						166.5	166	164.5	165.1	162.4
Revenue/Share						32.73	34.53	32.87	48.00	46.40
FCF/Share						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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