



# Cincinnati Financial Corp. (CINF)

Updated May 22<sup>nd</sup>, 2021 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$120	<b>5 Year CAGR Estimate:</b>	4.7%	<b>Market Cap:</b>	\$19.4 B
<b>Fair Value Price:</b>	\$89	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	6/16/2021
<b>% Fair Value:</b>	135%	<b>5 Year Valuation Multiple Estimate:</b>	-5.9%	<b>Dividend Payment Date:</b>	7/15/2021
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$136	<b>Years Of Dividend Growth:</b>	60
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$19.4 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 April 28, 2021, Cincinnati Financial reported results for the first quarter of Fiscal Year (FY)2021. Total revenues were \$2,227 million for the quarter compared to a loss of \$(99) million. The loss in the first quarter of 2020 resulted from \$(1,725) million in investments during the height of the COVID-19 pandemic. Earned premiums were up 6% year over year. The Company made a profit of \$620 million vs. a loss of \$(1,226) million at the same time last year. On a per-share basis, CINF made \$3.82 per share for the quarter. Non-GAAP operating income for the quarter was up 63% from \$0.84 per share to \$1.37 per share. Looking at book value per share, the Company made \$69.16, which is up \$2.12 since year-end. Overall CINF, had a great quarter, which drove up the stock price from \$106 to as high of \$122 as of this report.

We increased our estimated Earnings Per Share (EPS) for 2021 to \$4.42 from \$3.85 per share. This represents a 35.1% increase compared to FY2020 earnings.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.74	\$2.40	\$2.81	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	\$4.20	\$3.28	<b>\$4.43</b>	<b>\$6.82</b>
<b>BPS</b>	\$1.61	\$1.62	\$1.66	\$1.76	\$1.84	\$1.92	\$2.00	\$2.12	\$2.24	\$2.40	<b>\$2.52</b>	<b>\$3.22</b>
<b>DPS</b>	\$31.20	\$33.45	\$37.24	\$40.15	\$39.21	\$42.94	\$50.29	\$48.11	\$60.50	\$67.04	<b>\$73.74</b>	<b>\$118.76</b>
<b>Shares<sup>1</sup></b>	163.0	163.0	165.0	165.0	165.0	167.0	166.0	165.0	165.0	162.0	<b>162.0</b>	<b>162.0</b>

Cincinnati Financial has grown earnings by 18% per year over the past nine years and 7.6% over the past five years. Consensus analyst expects that earnings will grow by 9% 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. Cincinnati Financial is a somewhat aggressive investor and a 39.3% allocation to equities compared to many insurers. 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 9% earnings and 10% book value growth over the next five years, but the estimate depends 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.

<sup>1</sup> 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	27.1	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	1.6	1.6
Avg. Yld.	5.4%	4.4%	3.5%	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	2.6%	2.1%	2.4%

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 27.1 P/E and 1.36 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%	57%	47%

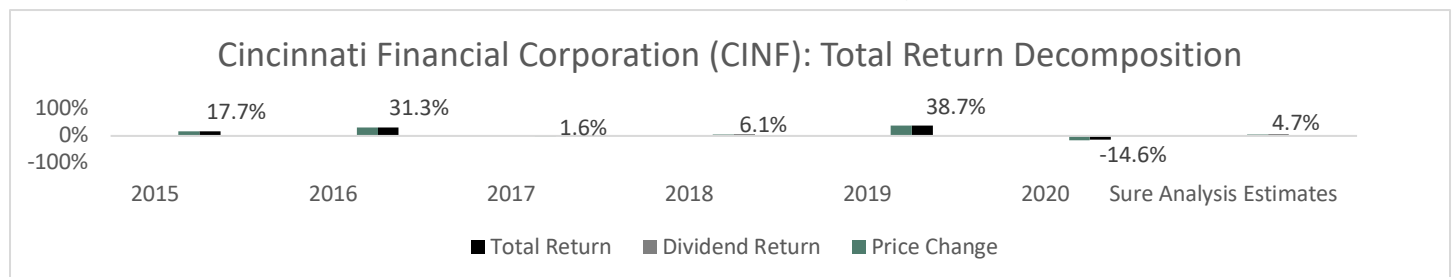
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully 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 72.2 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 100%. Because the stock price of Cincinnati Financial has gone up too much, the company earns a Hold recommendation due to its high valuation levels compared to historical valuation levels, with an estimated total return of 4.7% 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
<b>Revenue</b>	3803	4111	4531	4945	5142	5449	5732	5407	7924	7536
<b>D&amp;A Exp.</b>	42	44	50	51	52	48	55	63	72	
<b>Net Profit</b>	164	421	517	525	634	591	1045	287	1997	1216
<b>Net Margin</b>	4.3%	10.2%	11.4%	10.6%	12.3%	10.8%	18.2%	5.3%	25.2%	16.1%
<b>Free Cash Flow</b>	240	632	789	864	1065	1102	1036	1161	1184	
<b>Income Tax</b>	9	145	197	196	247	221	-315	-36	475	283

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	15635	16548	17662	18748	18888	20386	21843	21935	25408	27542
<b>Cash &amp; Equivalents</b>	438	487	433	591	544	777	657	784	767	900
<b>Acc. Receivable</b>	1828	1944	2014	2073	2102	2212	2155	2260	2520	2532
<b>Total Liabilities</b>	10602	11095	11592	12175	12461	13326	13600	14102	15544	16753
<b>Long-Term Debt</b>	925	931	894	835	821	807	811	820	827	899
<b>Total Equity</b>	5033	5453	6070	6573	6427	7060	8243	7833	9864	10789
<b>D/E Ratio</b>	0.18	0.17	0.15	0.13	0.13	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
<b>Return on Assets</b>	1.1%	2.6%	3.0%	2.9%	3.4%	3.0%	4.9%	1.3%	8.4%	4.6%
<b>Return on Equity</b>	3.3%	8.0%	9.0%	8.3%	9.8%	8.8%	13.7%	3.6%	22.6%	11.8%
<b>ROIC</b>	2.8%	6.8%	7.7%	7.3%	8.7%	7.8%	12.4%	3.2%	20.6%	10.9%
<b>Shares Out.</b>	163.0	163.0	165.0	165.0	165.0	167.0	166.0	165.0	165.0	162.0
<b>Revenue/Share</b>	23.29	25.11	27.39	29.95	31.05	32.73	34.53	32.87	48.00	46.40
<b>FCF/Share</b>	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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