



CNA Financial Corp. (CNA)

Updated August 7th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	7.6%	Market Cap:	\$12 B
Fair Value Price:	\$48	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/13/21
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	09/02/21
Dividend Yield:	3.4%	5 Year Price Target	\$56	Years Of Dividend Growth:	5
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	2.7%

Overview & Current Events

Founded in 1897 and headquartered in Chicago, IL, CNA Financial is one of the largest U.S. Commercial Property and Casualty insurance companies. The company operates under five segments: Specialty, Commercial, International, Life & Group and Corporate & Other – offering property and casualty coverage, life, accident and health insurance and retirement products and annuities. Loews Corporation (L) owns approximately 89% of CNA's shares. Last year the \$12 billion market cap company, serving over 1 million businesses and professionals, generated \$735 million in profit.

On August 2nd, 2021, CNA reported Q2 2021 results for the period ending June 30th, 2021. For the quarter the company posted net income of \$368 million or \$1.35 per share compared to \$151 million or \$0.55 per share in Q2 2020. Core income – which excludes investment gains or losses – equaled \$341 million or \$1.25 per share compared to \$99 million or \$0.36 per share in Q2 2020.

The underlying combined ratio, which divides the sum of claim-related losses and business expenses by premiums earned, was 91.4% vs. 93.2% in Q2 2020. Adjusted book value per share equaled \$44.81 vs. \$43.86 in Q2 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.28	\$2.17	\$3.85	\$3.14	\$1.90	\$3.05	\$3.38	\$3.11	\$3.59	\$2.70	\$4.00	\$4.64
DPS	\$0.40	\$0.55	\$0.80	\$1.00	\$1.00	\$1.00	\$1.10	\$1.30	\$1.40	\$1.48	\$1.52	\$1.76
Shares¹	269.3	269.4	269.7	270.0	270.3	270.5	271.2	271.5	271.4	271.4	272	272

Note that we are using core earnings, as we believe this better reflects the long-term earnings power of the company. CNA has put together a volatile, but positive business record over the last decade. This is to be expected from an insurer, as premiums tend to be consistent, but claims will vary dramatically. From 2010 through 2020, CNA grew EPS at a rate of 2.1% per year. However, if measured from 2009 or 2007, the growth rate has actually been negative. Part of this is attributable to a down year in 2020 and part of it is a long-term lack of improvement.

While this may not set a strong precedent for growth, we are of the opinion that a slow and steady approach is warranted in this industry. Insurers do not know their liabilities for many years, and it can be easy to underprice policies to chase growth. This is especially relevant today, given the ongoing COVID-19 pandemic and the uncertainties surrounding future equity gyrations and insurance related losses; especially as it pertains to weather.

We believe CNA could generate growth over the intermediate term via ongoing policy price increases, a combined ratio that continues to improve and higher interest rates over the long-term, which would help the fixed maturity holdings. We are forecasting earnings to bounce back in 2021 and we are assuming a 3% intermediate term growth rate.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.9	12.9	9.2	12.7	20.2	11.0	14.1	15.4	12.7	12.9	11.1	12.0
Avg. Yld.	1.5%	2.0%	2.3%	2.5%	2.6%	3.0%	2.3%	2.7%	3.1%	4.2%	3.4%	3.2%

¹ In millions.

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Over the past decade shares of CNA have traded hands with an average multiple of 13 times earnings. We believe 12 times earnings is a reasonable starting place, given the volatile results of the business and relatively low growth expectation compared to other companies in the industry. With shares currently trading near 11 times our earnings estimate, this implies a small valuation tailwind. Note that while CNA has paid a substantial special dividend every year since 2014, we have not included this in the forecast. As such, this component could very well be understated in our dividend return estimates presented above.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18%	25%	21%	32%	53%	33%	33%	42%	39%	55%	38%	38%

While CNA's business results have been markedly positive during the last decade, we do not believe the firm has a material competitive advantage given that insurance products are commodity-like in nature.

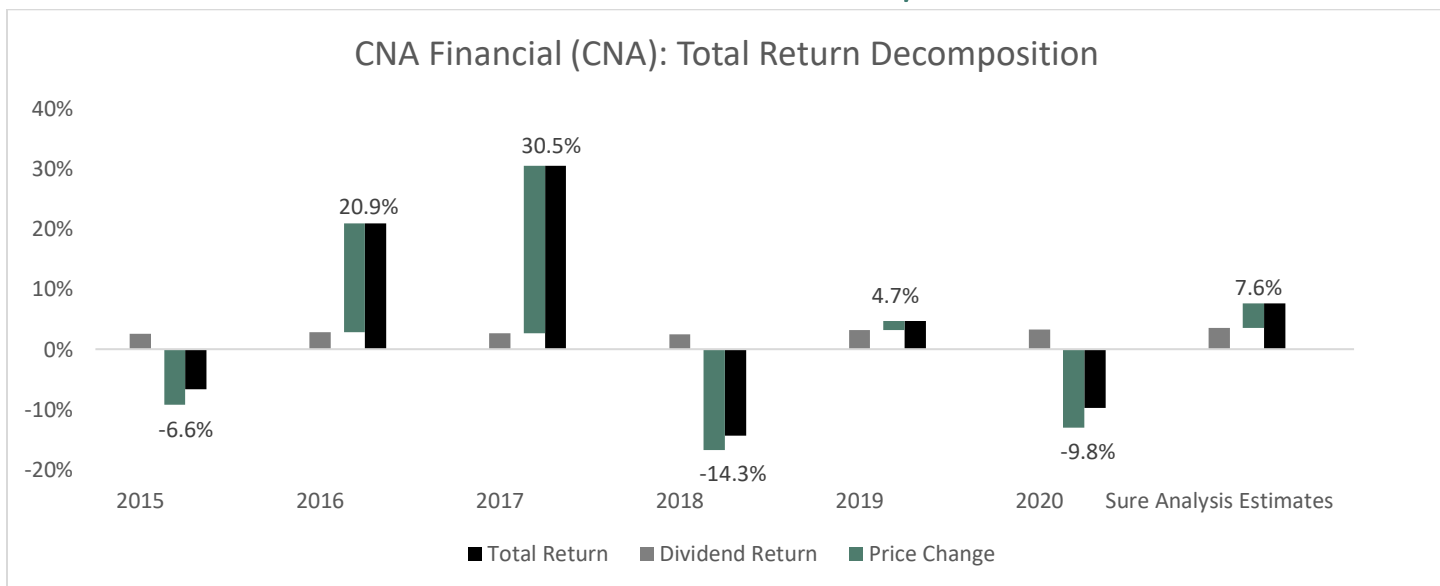
CNA is not necessarily beholden to economic conditions as much as it is to the timing of insurance related losses. That being said, many of the company's customers are sensitive to recessions, which will put pressure on the company in lesser times. During the last recession, CNA posted earnings-per-share of \$3.90, \$1.91, \$3.42, \$2.20 and \$2.28 during the 2007 through 2011 stretch. Moreover, the dividend was cut from \$0.45 to zero during 2009 and 2010, before being reinstated at \$0.40 in 2011. This is a cautionary tale for what could happen during the next downturn.

Today the company appears to be in reasonable financial shape, with A+ and A2 ratings from S&P and Moody's. Moreover, we are encouraged by the annual special dividend as this shows both a penchant for returning capital to shareholders and flexibility if the firm needs it in the future.

Final Thoughts & Recommendation

After being up 38% and 12% in our last two reports, shares are down -8% in the last three months. CNA Financial has put together a positive, albeit volatile record in the past decade. Moreover, the growth rate has not been especially strong. Still, this is to be expected in the industry and we are encouraged by the capital allocation decisions being made. We are projecting 7.6% annual total return potential, stemming from 3% growth, a small valuation tailwind and the 3.4% starting dividend yield, which may be understated if special dividends continue to accrue. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	\$8,949	\$9,364	\$9,932	\$9,692	\$9,101	\$9,366	\$9,542	\$10,134	\$10,767	\$10,690
D&A Exp.	\$79	\$125	\$101	\$83	\$84	\$77	\$88	\$79	\$68	\$60
Net Profit	\$612	\$628	\$937	\$691	\$479	\$859	\$899	\$813	\$1,000	\$690
Net Margin	6.8%	6.7%	9.4%	7.1%	5.3%	9.2%	9.4%	8.0%	9.3%	6.5%
Free Cash Flow	\$1,618	\$1,156	\$1,113	\$1,369	\$1,262	\$1,270	\$1,152	\$1,128	\$1,114	\$1,752
Income Tax	\$242	\$239	\$361	\$319	\$70	\$278	\$411	\$151	\$223	\$131

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	\$55,110	\$58,522	\$57,194	\$55,566	\$55,045	\$55,233	\$56,567	\$57,152	\$60,612	\$64,030
Cash & Equiv.	\$75	\$156	\$195	\$190	\$387	\$271	\$355	\$310	\$242	\$419
Accounts Rec.	\$7,615	\$8,040	\$7,996	\$6,630	\$6,531	\$6,625	\$6,553	\$6,749	\$6,628	\$7,064
Goodwill & Int.	\$123	\$267	\$248	\$237	\$231	\$214	\$220	\$214	\$216	\$217
Total Liabilities	\$43,622	\$46,208	\$44,543	\$42,772	\$43,289	\$43,264	\$44,323	\$45,935	\$48,397	\$51,320
LT Debt	\$2,608	\$2,570	\$2,560	\$2,559	\$2,560	\$2,710	\$2,858	\$2,680	\$2,679	\$2,776
Book Value	\$11,488	\$12,314	\$12,651	\$12,794	\$11,756	\$11,969	\$12,244	\$11,217	\$12,215	\$12,710
D/E Ratio	0.23	0.21	0.20	0.20	0.22	0.23	0.23	0.24	0.22	0.22

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	1.1%	1.6%	1.2%	0.9%	1.6%	1.6%	1.4%	1.7%	1.1%
Return on Equity	5.5%	5.3%	7.5%	5.4%	3.9%	7.2%	7.4%	6.9%	8.5%	5.5%
ROIC	4.3%	4.3%	6.2%	4.5%	3.2%	5.9%	6.0%	5.6%	6.9%	4.5%
Shares Out.	269.6	269.8	270.2	270.6	270.7	271.1	272.1	272.5	272.5	272.4
Revenue/Share	\$33.19	\$34.71	\$36.76	\$35.82	\$33.62	\$34.55	\$35.07	\$37.19	\$39.51	\$39.23
FCF/Share	\$6.00	\$4.28	\$4.12	\$5.06	\$4.66	\$4.68	\$4.23	\$4.14	\$4.09	\$6.43

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

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