



Cincinnati Financial Corp. (CINF)

Updated October 30th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$121	5 Year CAGR Estimate:	8.0%	Market Cap:	\$20.3B
Fair Value Price:	\$112	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/15/2021 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	01/15/2022
Dividend Yield:	2.1%	5 Year Price Target	\$164	Years Of Dividend Growth:	60
Dividend Risk Score:	A	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 \$20.3 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 October 27, 2021, Cincinnati Financial reported results for the third quarter of Fiscal Year (FY)2021.

Total revenues were \$1,785 million for the quarter compared to \$2,227 million in 3Q2020. Thus, revenues were down (20)% year over year. However, earned premiums were up 10% year over year. For the first nine months, total revenue is up 30% compared to the first nine months of FY2020. CINF generated a net income of \$153 million, or \$0.94 per share, compared with \$484 million, or \$2.99 per share, in the third quarter of 2020, after recognizing an \$82 million third-quarter 2021 after-tax increase in the fair value of equity securities still held. On a non-GAAP operating income basis, the Company made \$209 million for the quarter, it is up \$146 million or 232% compared to the third quarter of 2020. For the nine months of the fiscal year, non-GAAP operating income is up 166%, from \$1.67 per share in the nine months of FY2020 to \$4.44 per share. The Company book value increased 6.45% since year-end to now \$73.49.

We increased our estimated Earnings Per Share (EPS) for 2021 to \$5.58 from \$5.15 per share. This represents a 70% 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	\$5.58	\$8.20
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	\$73.49	\$118.36
Shares²	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 12.7% over the past five years. Consensus analyst expects that earnings will grow by 8% 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 has 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 forwarding investment returns. We have a baseline forecast of 8% earnings and 10% book value growth over the next five years, but the estimate depends on

¹ Ex-Dividend Date and Dividend Payment Date are estimates.

² Share count is in millions.

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overall stock and bond performance in the United States over that period. Management expects to grow the book value by 10% - 15% per year.

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	21.8	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	1.7	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%	2.0%

If excluded, 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. The P/B ratio has averaged 1.6. The Company is slightly higher with its historical norm at the current 21.8 P/E and 1.7 P/B valuations. As the base case, we expect a mean reversion to 20 P/E, implying a headwind of (1.7)%.

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%	45%	39%

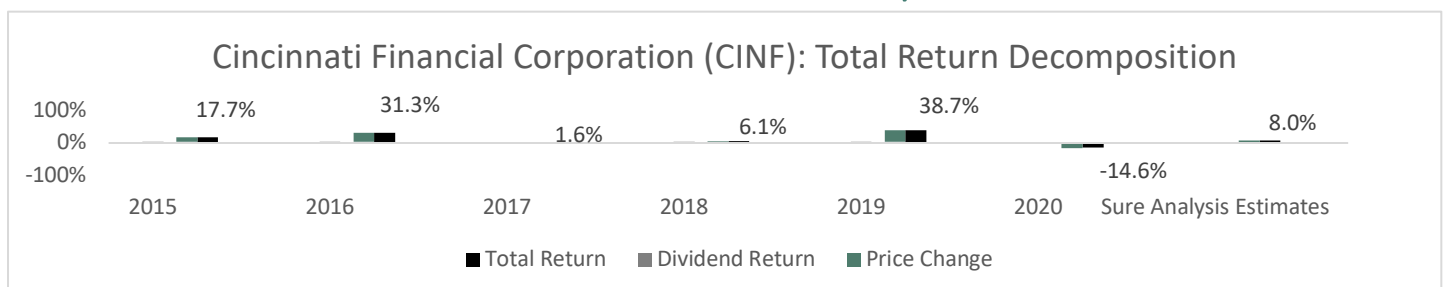
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment-grade credit rating, and Cincinnati Financial having 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 60.3 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. The Company earns a Hold recommendation due to its valuation levels compared to historical valuation levels, with an estimated total return of 8.0% 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	3803	4111	4531	4945	5142	5449	5732	5407	7924	7536
D&A Exp.	42	44	50	51	52	48	55	63	72	
Net Profit	164	421	517	525	634	591	1045	287	1997	1216
Net Margin	4.3%	10.2%	11.4%	10.6%	12.3%	10.8%	18.2%	5.3%	25.2%	16.1%
Free Cash Flow	240	632	789	864	1065	1102	1036	1161	1184	
Income Tax	9	145	197	196	247	221	-315	-36	475	283

Balance Sheet Metrics

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