



Cincinnati Financial Corp. (CINF)

Updated February 27th, 2022 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|------------|
| Current Price: | \$125 | 5 Year CAGR Estimate: | 6.9% | Market Cap: | \$20.13 B |
| Fair Value Price: | \$108 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 03/17/2022 |
| % Fair Value: | 116% | 5 Year Valuation Multiple Estimate: | -2.9% | Dividend Payment Date: | 04/15/2022 |
| Dividend Yield: | 2.2% | 5 Year Price Target | \$158 | Years Of Dividend Growth: | 62 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 9.5% |

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 \$20.13 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 15, 2022, Cincinnati Financial reported results for the fourth quarter and full Fiscal Year (FY)2021. Total revenues were \$3,323 million for the quarter compared to \$2,694 million in 4Q2020. Thus, revenues were up 23% year over year. Earned premiums were up 10% year over year. For the full year, total revenue is up 8% compared to FY2020. CINF generated a net income of \$1,470 million, or \$9.04 per share, compared with \$1,049 million, or \$6.47 per share, in the fourth quarter of 2020, after recognizing a \$1.113 billion fourth-quarter 2021 after-tax increase in the fair value of equity securities still held. For the year, net income is up 142%. On a non-GAAP operating income basis, the company made \$320 million for the quarter, up \$58 million or 22% compared to the fourth quarter of 2020. For the fiscal year, non-GAAP operating income is up 95%, from \$3.28 per share in FY2020 to \$6.41 per share. The company book value increased 22 % since year-end to \$81.72, which is a record high for the company. Also, on January 28, 2022, the company increased its dividend by 9.5% to \$0.69 per share per quarter. This makes it its 62 years of dividend increases. We estimate that Earnings Per Share (EPS) for 2022 to be \$5.28.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|-----------------|
| EPS | \$2.40 | \$2.81 | \$2.66 | \$3.56 | \$3.07 | \$2.74 | \$3.35 | \$4.20 | \$3.28 | \$6.41 | \$5.38 | \$7.90 |
| BPS | \$1.62 | \$1.66 | \$1.76 | \$1.84 | \$1.92 | \$2.00 | \$2.12 | \$2.24 | \$2.40 | \$2.52 | \$2.76 | \$3.52 |
| DPS | \$33.45 | \$37.24 | \$40.15 | \$39.21 | \$42.94 | \$50.29 | \$48.11 | \$60.50 | \$67.04 | \$81.72 | \$75.00 | \$120.79 |
| Shares¹ | 163.0 | 165.0 | 165.0 | 165.0 | 167.0 | 166.0 | 165.0 | 165.0 | 162.0 | 162.7 | 162.7 | 162.7 |

Cincinnati Financial has grown earnings by 11.5% per year over the past nine years and 14.4% over the past five years. Consensus analysts expect earnings to grow by 8% for the next five years. Book value, a significant metric for insurance companies, has increased by 10.4% over the past nine years and 8.3% 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 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 14.3 | 17 | 18.3 | 15.2 | 22.7 | 26.8 | 22.3 | 25.0 | 26.6 | 17.8 | 23.2 | 20.0 |
| Avg. P/B | 1.1 | 1.28 | 1.21 | 1.38 | 1.62 | 1.46 | 1.55 | 3.8 | 1.3 | 1.4 | 1.7 | 1.6 |
| Avg. Yld. | 4.4% | 3.5% | 3.6% | 4.2% | 2.8% | 3.4% | 2.8% | 2.1% | 2.6% | 2.2% | 2.2% | 2.2% |

Cincinnati Financial has averaged a 20.6 P/E ratio over the past decade. The P/B ratio has averaged 1.6. The company is slightly higher with its historical norm at the current 23.2 P/E and 1.7 P/B valuations. We expect a mean reversion to 20 P/E as the base case, implying a headwind of (2.9)%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 68% | 59% | 66% | 52% | 63% | 73% | 63% | 53% | 73% | 39% | 51% | 45% |

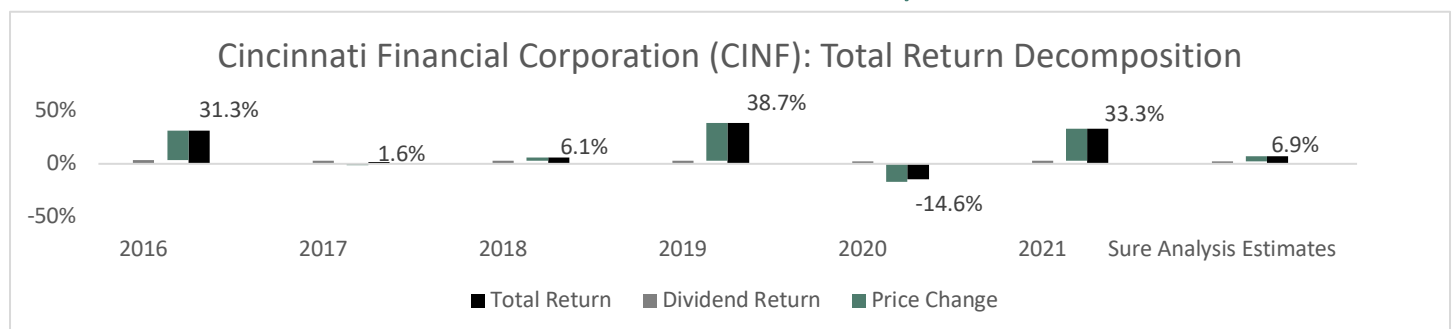
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment-grade credit rating, and Cincinnati Financial having 62 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 70.3 times and a Debt-to-Equity ratio of 0.1.

Final Thoughts & Recommendation

Cincinnati Financial is a high-quality dividend stock that has previously delivered compelling results for shareholders. 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 6.9% annually for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 4,111 | 4,531 | 4,945 | 5,142 | 5,449 | 5,732 | 5,407 | 7,924 | 7,536 | 9,630 |
| D&A Exp. | 44 | 50 | 51 | 52 | 48 | 55 | 63 | 72 | 81 | 93 |
| Net Profit | 421 | 517 | 525 | 634 | 591 | 1,045 | 287 | 1,997 | 1,216 | 2,946 |
| Net Margin | 10.2% | 11.4% | 10.6% | 12.3% | 10.8% | 18.2% | 5.3% | 25.2% | 16.1% | 30.6% |
| Free Cash Flow | 632 | 789 | 864 | 1,065 | 1,102 | 1,036 | 1,161 | 1,184 | 1,471 | 1,966 |
| Income Tax | 145 | 197 | 196 | 247 | 221 | -315 | -36 | 475 | 283 | 724 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 16,548 | 17,662 | 18,748 | 18,888 | 20,386 | 21,843 | 21,935 | 25,408 | 27,542 | 31,387 |
| Cash & Equivalents | 487 | 433 | 591 | 544 | 777 | 657 | 784 | 767 | 900 | 1,139 |
| Acc. Receivable | 1,829 | 1,893 | 1,950 | 1,973 | 2,078 | 2,021 | 2,128 | 2,387 | 2,396 | 2,623 |
| Total Liabilities | 11,095 | 11,592 | 12,175 | 12,461 | 13,326 | 13,600 | 14,102 | 15,544 | 16,753 | 18,282 |
| Long-Term Debt | 931 | 894 | 835 | 821 | 807 | 811 | 820 | 827 | 842 | 843 |
| Total Equity | 5,453 | 6,070 | 6,573 | 6,427 | 7,060 | 8,243 | 7,833 | 9,864 | 10,789 | 13,105 |
| LTD/E Ratio | 0.17 | 0.15 | 0.13 | 0.13 | 0.11 | 0.10 | 0.10 | 0.08 | 0.08 | 0.06 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 2.6% | 3.0% | 2.9% | 3.4% | 3.0% | 4.9% | 1.3% | 8.4% | 4.6% | 10.0% |
| Return on Equity | 8.0% | 9.0% | 8.3% | 9.8% | 8.8% | 13.7% | 3.6% | 22.6% | 11.8% | 24.7% |
| ROIC | 6.8% | 7.7% | 7.3% | 8.7% | 7.8% | 12.4% | 3.2% | 20.6% | 10.9% | 23.0% |
| Shares Out. | 163.0 | 165.0 | 165.0 | 165.0 | 167.0 | 166.0 | 165.0 | 165.0 | 162.0 | 162.7 |
| Revenue/Share | 25.11 | 27.39 | 29.95 | 31.05 | 32.73 | 34.53 | 32.87 | 48.00 | 46.40 | 59.19 |
| FCF/Share | 3.86 | 4.77 | 5.23 | 6.43 | 6.62 | 6.24 | 7.06 | 7.17 | 9.06 | 12.08 |

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

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