



Fidelity National Financial (FNF)

Updated March 7th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	11.1%	Market Cap:	\$13 B
Fair Value Price:	\$63	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/15/22
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.2%	Dividend Payment Date:	03/31/22
Dividend Yield:	3.8%	5 Year Price Target	\$69	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	10.0%

Overview & Current Events

Fidelity National Financial provides title insurance and transaction services to the real estate and mortgage industries. Through the company's title insurance underwriters - including Chicago Title, Commonwealth Land Title, Alamo Title and National Title of New York – Fidelity National is the nation's largest title insurance company, with a ~33% market share. In addition, Fidelity National also provides annuity and life insurance products. The \$13 billion market cap business generated \$15.6 billion in revenue last year and earned \$2.4 billion.

On November 2nd, 2021, Fidelity National increased its quarterly dividend to \$0.44, marking a 10% increase.

On February 23rd, Fidelity National reported fourth quarter and FY 2021 results for the period ended December 31st, 2021. For the year, the company generated record revenue of \$15.6 billion, a 45% increase over 2020. Results were led by \$11.9 billion in title revenue. In Q4, 536,000 title orders were opened, and 477,000 title orders were closed. Interest and investment income also contributed to the revenue gain, although this is a much smaller portion of the business.

Net income equaled \$2.4 billion or \$8.44 per share compared to \$1.4 billion or \$4.99 per share in 2020. However, these figures include mark-to-market investment gains and losses due to the relatively new accounting treatment of equity securities. Changes in equity values are run through the income statement regardless of whether or not a position is sold. On an adjusted basis, earnings-per-share equaled \$7.90 versus \$5.34 in 2020.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	\$1.89	\$2.34	\$2.38	\$2.26	\$3.83	\$5.02	\$8.44	\$6.25	\$6.90
DPS	---	---	---	\$0.80	\$0.84	\$1.02	\$1.20	\$1.25	\$1.35	\$1.56	\$1.76	\$1.94
Shares¹	---	---	---	276	272	274	275	276	298	284	280.0	270.0

Note that while Fidelity National has a long history, the company distributed tracking stock in 2014 to separate its core business from its portfolio company investments. We have elected to present data from 2015 onward, which better reflects the underlying economics of the current iteration of the company.

Due to this somewhat limited historical view, it is not easy to extrapolate recent results as a growth thesis moving forward. While results have been quite solid as of late, and indeed were tremendous in 2021, this is mostly attributable to the current economic circumstances. The real estate market, and hence mortgages and title insurance, have been beneficiaries of low interest rates, increased liquidity and increased demand. However, it is not yet clear how long these benefits will continue. Higher interest rates, increased supply or a worsening economy are all important risks to the volume of title insurance, but these items are out of the company's control.

Fidelity National also faces technological risk as the industry continues to make strides in digital transformation. To this point, Fidelity National has rolled out its *inHere* and *CloseinHere* platforms, enabling virtual homebuying and refinancing.

We are forecasting 2% annual growth from 2022's fair base, considering the recent boon to results. Even so, this still implies strong growth when compared to pre-2020 figures.

¹ In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	19.3	14.7	17.1	16.6	10.7	6.8	6.3	7.4	10.0
Avg. Yld.	---	---	---	2.2%	2.4%	2.5%	3.2%	3.1%	4.0%	3.5%	3.8%	2.8%

In the 2015 through 2021 period, shares of Fidelity National traded hands with an average P/E ratio of about 13.1 times earnings. We are using 10 times earnings as a fair value baseline, taking into consideration the strong results as of late and the moderate anticipated growth rate. With shares presently trading just above 7 times expected earnings, this implies the potential for a valuation tailwind.

In addition, the 3.8% dividend yield, with the propensity to grow, should play an important role in shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	42%	36%	43%	53%	33%	27%	18%	28%	28%

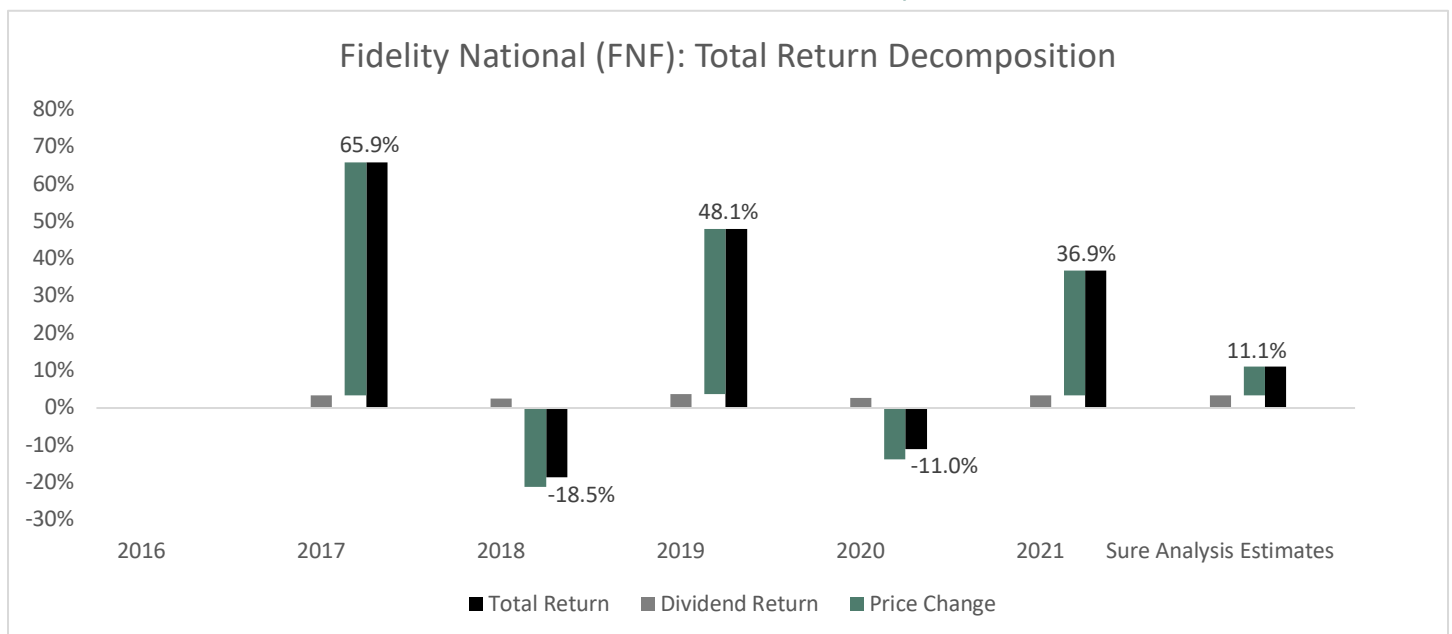
Fidelity National pays out roughly a fourth of anticipated profits, which is where we are forecasting the payout to be over the intermediate term. While the company has the ability to raise its payout ratio, we believe growing the dividend slowly is prudent; especially considering that strong results as of late may not be here to stay.

Fidelity National has a strong competitive advantage as the leading title insurance company in the U.S. This does not guarantee success, but the company should be able to capture its “fair share” of the market over time. Of course, this industry will wax and wane with economic growth and more specially housing over time.

Final Thoughts & Recommendation

Shares are down 10% year-to-date. Fidelity National has proven to be a solid business as the leading title insurance company in the nation. This year is poised to be a standout amidst strong housing demand, but intermediate-term results are less clear. Total return potential comes in at 11.1% per annum, stemming from 2% growth, the 3.8% starting dividend yield and the potential for a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,668	7,440	8,024	6,664	7,257	7,663	7,594	8,469	10,702	15,054
SG&A Exp.	1,834	2,061	2,540	2,137	2,275	2,460	2,538	2,696	2,951	3,528
D&A Exp.	132	209	476	410	431	389	182	178	296	645
Net Profit	607	394	583	527	650	771	628	1,062	1,427	2,422
Net Margin	9.1%	5.3%	7.3%	7.9%	9.0%	10.1%	8.3%	12.5%	13.3%	16.1%
Free Cash Flow	541	339	384	710	872	588	860	1,025	1,468	3,959
Income Tax	242	195	312	274	347	235	120	308	322	713

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,903	10,528	13,845	13,931	14,521	9,151	9,301	10,677	50,455	60,690
Cash & Equivalents	1,132	1,969	700	780	1,049	1,110	845	992	2,449	3,880
Accounts Receivable	479	482	504	500	322	317	306	346	3,648	4,295
Goodwill & Int. Ass.	2,933	2,930	6,794	6,673	3,535	3,762	3,644	3,553	7,163	7,496
Total Liabilities	5,154	4,993	7,772	7,343	7,623	4,684	4,673	5,312	42,063	51,233
Accounts Payable	186	236	81	68	42	39	35	44	115	129
Long-Term Debt	1,344	1,323	2,803	2,793	987	759	836	838	2,662	3,096
Shareholder's Equity	4,268	5,061	5,994	5,754	5,996	4,447	4,630	5,382	8,351	9,414
LTD/E Ratio	0.31	0.26	0.47	0.49	0.16	0.17	0.18	0.16	0.32	0.33

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	3.9%	4.8%	3.8%	4.6%	6.5%	6.8%	10.6%	4.7%	4.4%
Return on Equity	15.4%	8.4%	10.5%	9.0%	11.1%	14.8%	13.8%	21.2%	20.8%	27.3%
ROIC	11.4%	6.1%	7.4%	5.8%	7.5%	11.8%	11.7%	18.2%	16.5%	20.5%
Shares Out.	---	---	---	276	272	274	275	276	298	284
Revenue/Share	29.50	31.66	42.46	18.11	25.92	27.56	27.32	30.57	37.42	52.45
FCF/Share	2.39	1.44	2.03	1.93	3.11	2.12	3.09	3.70	5.13	13.79

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

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