



The Travelers Companies (TRV)

Updated April 25th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$173	5 Year CAGR Estimate:	6.4%	Market Cap:	\$42 B
Fair Value Price:	\$160	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/09/22
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	06/30/22
Dividend Yield:	2.2%	5 Year Price Target	\$214	Years Of Dividend Growth:	17
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

The Travelers Companies was founded in 1864 in Hartford, CT by two local businessmen. The company began with life and accident insurance but has expanded into other types of coverage in the 150+ years since then. Today, it generates just over \$33 billion in annual revenue and has a \$42 billion market capitalization. The company offers a wide and deep variety of protection products for auto, home, and business customers. It is also a member of the Dow Jones Industrial Average, making it the only property casualty insurance provider in the prestigious index.

Travelers reported first quarter earnings on April 19th, 2022, with results coming in better than expected on earnings, but slightly under expectations on the top line. Earnings-per-share were \$4.22 on an adjusted basis, 60 cents better than estimates. Revenue, as measured by earned premium, was \$8 billion, up 8.4% year-over-year, but fractionally below estimates.

Net written premiums were \$8.4 billion, up from \$7.5 billion a year ago. Net investment income was \$539 million, down 9% year-over-year as lower private equity partnership returns drove NII down.

The company's underlying ratio, which is a critical measure of profitability, was 91.2%, a deterioration from 89.5% in the year-ago period. A higher underlying ratio indicates higher costs. However, core income increased due to lower catastrophe losses.

Adjusted book value ended the quarter at \$112 per share, up from \$110 at the end of 2021. In addition, the company boosted its dividend by 6%, its 17th year of dividend increases.

We see \$13.30 in earnings-per-share for this year following the very strong profits of the Q1 report.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$6.21	\$9.46	\$10.56	\$10.87	\$10.13	\$7.27	\$8.94	\$9.60	\$10.48	\$13.94	\$13.30	\$17.80
DPS	\$1.79	\$1.96	\$2.15	\$2.38	\$2.68	\$2.83	\$3.03	\$3.23	\$3.37	\$3.49	\$3.72	\$4.98
Shares¹	377	354	322	296	280	271	264	259	255	241	228	185

After strong growth coming out of the Great Recession, Travelers failed to regain its 2015 high of \$10.87 in earnings-per-share until 2021. Conditions were quite favorable in 2021 in that prior reserve developments were unwound, investment conditions were excellent, and losses were lower than normal. This year should result in more normalized conditions, but as a result, we are expecting higher 6% earnings-per-share growth annually in the coming years, noting that insurer earnings are notoriously volatile.

Travelers could achieve this growth primarily from higher underwritten premiums and the buyback program, although margins should play a part as well, as long as there aren't any large catastrophes. We forecast low single-digit gains from higher revenue as well as a similar tailwind from the company's buyback, which has reduced the float by about a third in just the past decade alone. Recent reductions have been smaller in size given the higher share price, but Travelers is

¹ Share count in millions

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committed to reducing its share count over time. Lower operating expenses should also provide a bit of a boost to earnings, but the Travelers story is about higher premiums, lower catastrophe losses, and a lower share count.

The dividend has been raised in the mid-single-digit range annually and we expect that will continue for the foreseeable future. Travelers is not a pure income stock, but its 2.2% yield is still decent by its historical standards, and almost 100bps better than the S&P 500.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.3	8.8	8.8	9.7	11.2	17.2	14.7	14.5	11.3	11.0	13.0	12.0
Avg. Yld.	2.8%	2.3%	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%	2.9%	2.3%	2.2%	2.3%

Travelers' price-to-earnings multiple stands at 13 times this year's earnings estimate. We therefore see the stock as somewhat overvalued given that our estimate of fair value is 12 times earnings. That implies a moderate negative impact to annual returns due to the valuation.

We forecast the yield to rise to 2.3% over time as the dividend is raised and as the valuation could moderate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	28%	21%	20%	22%	25%	38%	34%	34%	32%	25%	28%	28%

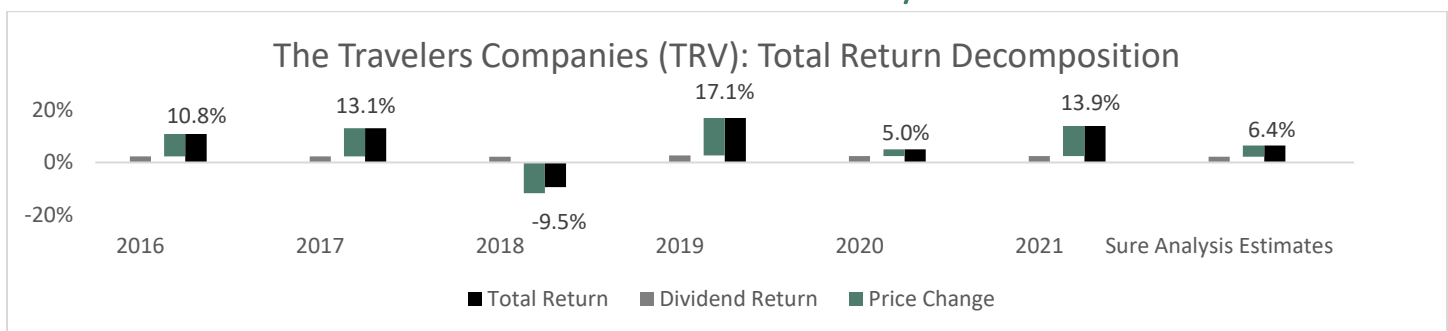
Travelers continues to be conservatively financed and does not have significant debt coming due in the next two years, so its balance sheet is in good shape and interest coverage remains robust. We believe the payout ratio should remain around one-third of earnings given that we are forecasting earnings and the dividend to grow at roughly congruent rates. The dividend is, therefore, very safe and we see many more years of increases on the horizon. Importantly, this continues to allow Travelers to buy back hundreds of millions of dollars of its own shares annually.

Travelers' main competitive advantages is in its immense scale and recognizable brand. Its size allows it to underwrite policies that others would not be able to, and its brand is well-known from its long history. Travelers is more susceptible to catastrophes than recessions, as we saw in 2017 and again in 2018. This makes Travelers a defensive play should the economy weaken materially, but we reiterate that insurance companies are susceptible to significant and unforeseen shocks, as Travelers has demonstrated in recent years.

Final Thoughts & Recommendation

Travelers looks like a safe financial services provider with a decent growth outlook. We forecast total annual return potential of 6.4% in the coming years, consisting of the 2.2% yield, 6% earnings-per-share growth and a small headwind from the valuation. We're reiterating Travelers at a hold rating as the stock is still slightly overvalued in our view.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	25,740	26,191	27,174	26,815	27,625	28,902	30,282	31,581	31,981	34,816
SG&A Exp.	3,610	3,757	3,964	4,094	4,154	4,170	4,297	4,365	4,509	4,677
D&A Exp.	827	867	864	818	826	813	803	763	789	870
Net Profit	2,473	3,673	3,692	3,439	3,014	2,056	2,523	2,622	2,697	3,662
Net Margin	9.6%	14.0%	13.6%	12.8%	10.9%	7.1%	8.3%	8.3%	8.4%	10.5%
Free Cash Flow	3,230	3,816	3,693	3,434	4,469	4,148	4,380	5,205	6,519	7,274
Income Tax	693	1,272	1,397	1,301	1,039	674	438	516	540	796

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	104.9	103.8	103.1	100.2	100.2	103.5	104.2	110.1	116.8	120.5
Cash & Equivalents	330	294	374	380	307	344	373	494	721	761
Acc. Receivable	21,390	20,166	19,920	19,721	19,618	20,228	20,661	20,763	20,421	20,427
Goodwill & Int.	3,746	3,985	3,915	3,852	3,848	4,293	4,282	4,291	4,293	4,314
Total Liabilities	79,533	79,016	78,242	76,586	77,024	79,752	81,339	84,179	87,563	91,579
Accounts Payable	5,152	4,626	4,698	4,670	4,882	5,049	5,074	4,982	4,617	4,295
Long-Term Debt	6,350	6,346	6,349	6,344	6,437	6,571	6,564	6,558	6,550	7,290
Total Equity	25,405	24,796	24,836	23,598	23,221	23,731	22,894	25,943	29,201	28,887
LTD/E Ratio	0.25	0.26	0.26	0.27	0.28	0.28	0.29	0.25	0.22	0.25

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.4%	3.5%	3.6%	3.4%	3.0%	2.0%	2.4%	2.4%	2.4%	3.1%
Return on Equity	9.9%	14.6%	14.9%	14.2%	12.9%	8.8%	10.8%	10.7%	9.8%	12.6%
ROIC	7.9%	11.7%	11.8%	11.3%	10.1%	6.9%	8.4%	8.5%	7.9%	10.2%
Shares Out.	377	354	322	296	280	271	264	259	255	251
Revenue/Share	66.03	69.97	79.34	85.43	94.93	103.74	112.24	120.40	125.61	138.32
FCF/Share	8.29	10.20	10.78	10.94	15.36	14.89	16.23	19.84	25.60	29.0

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

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