American Financial Group (AFG)

Updated May 28th, 2022, by Tiago Dias

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$11.7 B
Fair Value Price:	$143	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	07/15/2022[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	07/26/2022[1]
Dividend Yield:	1.6%	**5 Year Price Target**	$210	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

American Financial Group (AFG) is an insurance holding company that is engaged in property and casualty insurance, focusing on specialized commercial products for businesses. In 2021 the company completed the sale of its Annuity business for $3.57 billion in cash. In business for over 150 years, this $11.7 billion market cap company has regularly increased its quarterly dividend since 2006.

AFG reported Q1 2022 earnings on May 4th, 2022. For the quarter earnings-per-share equalled $3.40, below the $4.84 per share that the company reported for the same period in 2021. AFG paid cash dividends of $2.56 per share during the first quarter, which included a $2 special dividend and a $0.56 regular quarterly dividend. The company announced a new $8 special dividend payable on May 27th and with an ex-dividend date of May 19th, in addition to the regular quarterly dividend of $0.56 that was paid in April. While the company has not yet announced any other dividend, we expect that a new $0.56 quarterly dividend will be declared in early July, to be paid around the 26th of July.

The company upgraded its forward earnings estimate for 2022 to a range of $10.50 to $11.50, up from their previous guidance of $9.75 to $10.75. The higher estimate is the result of a favourable interest rates environment, higher returns on its cash and floating rate securities, and the strong performance of its alternative asset portfolio.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.26	$4.22	$4.82	$5.43	$6.03	$6.56	$8.40	$8.62	$8.44	$11.60	***$11.00***	***$16.16***
DPS	$0.72	$0.81	$0.91	$1.03	$1.15	$1.29	$1.45	$1.65	$1.85	$2.06	***$2.24***	***$3.29***
Shares	89	89	87	87	87	88	89	90	86	85	***85.0***	***85.0***

Insurance companies are stable non-cyclical businesses with generally reliable revenue and income streams that allow them to pay consistent dividends and return capital to shareholders. American Financial Group fits this mold precisely, and its performance over the past decade shows consistently growing revenues and earnings. As a mature company in a mature industry, we don't expect this situation to change. While the above market average growth of their earnings and dividends will likely slowdown in the next few years, we still expect the company to be able to outperform as a result of the profitable specialty insurance business which AFG is involved with having more growth opportunities than the consumer facing insurance segments.

As a result, we expect earnings to grow 8% annually until 2027, where earnings-per-share would stand at around $16.16 per share, and its quarterly dividend around $3.29 per share.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.7	11.9	12.1	12.3	12.2	15.1	12.9	11.8	9.1	10.6	***12.5***	***13.0***
Avg. Yld.	1.9%	1.6%	1.6%	1.5%	1.6%	1.3%	1.3%	1.6%	2.4%	1.7%	***1.6%***	***1.6%***

[1] Estimated date.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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American Financial Group has traded with an average P/E of about 12 times earnings in the past decade. Given its strong growth and history of returning capital to shareholders, we would expect this company to be re-rated slightly up to 13 times earnings by 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

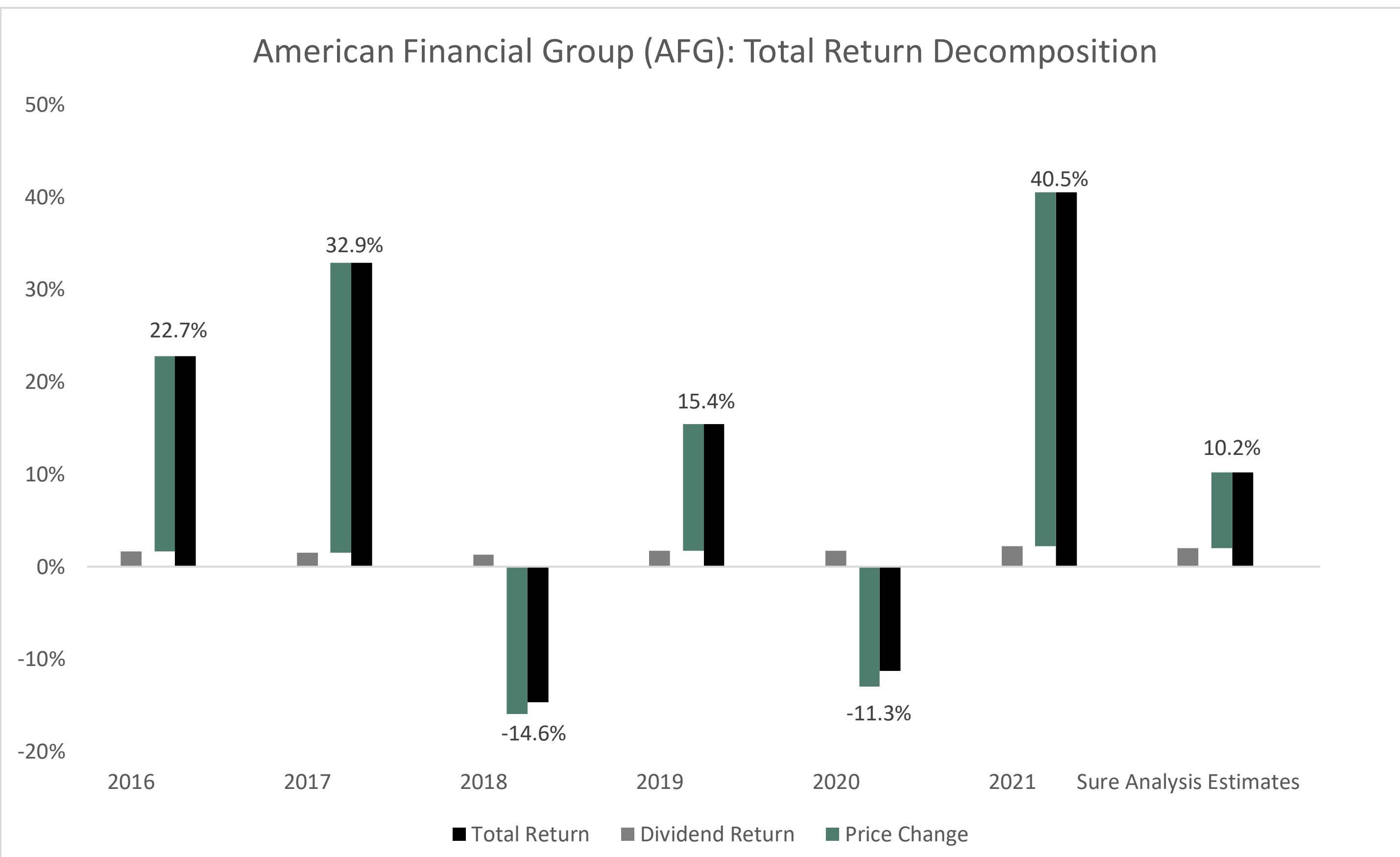
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2027**
Payout	22%	19%	19%	19%	19%	20%	17%	19%	22%	18%	***20%***	***20%***

The combination of regular quarterly dividends with special dividends mean that the company can quickly return capital to shareholders in special cases and events, like the recent divestiture of their annuities business, without restricting their ongoing ability to take on new opportunities. Additionally, the sale of the annuities business also helps the company focus on its more profitable property and casualty insurance divisions, which have better growth prospects and more reliable earnings. Overall, the quarterly dividends are well covered by the company's earnings and are unlikely to be cut anytime soon, however the special dividends will fluctuate as the company's business needs evolve.

Final Thoughts & Recommendation

With a deceptively low 1.6% quarterly dividend yield, and an expected 8% earnings growth, we estimate that the total return for AFG will be around 10% annually. However, this company's special dividends may provide an additional tailwind not accounted for in this forecast, and so it is likely that returns could be significantly better. 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	4,957	5,103	5,733	6,145	6,498	6,865	6,989	6,116	5,670	6,231
D&A Exp.	257	142	144	134	134	107	210	259	299	187
Net Profit	488	471	452	352	649	475	530	897	732	1,995
Net Margin	9.8%	9.2%	7.9%	5.7%	10.0%	6.9%	7.6%	14.7%	12.9%	32.0%
Free Cash Flow	817	760	1,231	1,353	1,150	1,804	2,083	2,456	2,183	1,714
Income Tax	135	236	220	195	119	247	122	143	25	254

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	39,171	42,087	47,535	49,837	55,072	60,658	63,456	70,130	73,710	28,931
Cash & Equivalents	1,705	1,639	1,343	1,220	2,107	2,338	1,515	2,314	1,665	2,131
Acc. Receivable	4,386	3,896	4,127	3,573	3,734	4,515	4,583	4,750	4,517	4,784
Goodwill & Int.	185	185	201	199	199	199	207	207	176	246
Total Liabilities	34,423	37,318	42,481	45,067	50,153	55,327	58,484	63,861	66,921	23,919
Accounts Payable	3,191	2,630	2,872	2,792	2,936	3,700	3,694	3,838	3,924	4,339
Long-Term Debt	953	913	1,061	998	1,283	1,301	1,302	1,473	1,963	1,964
Total Equity	4,578	4,599	4,879	4,592	4,916	5,330	4,970	6,269	6,789	5,012
LTD/E Ratio	0.21	0.20	0.22	0.22	0.26	0.24	0.26	0.24	0.29	0.39

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.3%	1.2%	1.0%	0.7%	1.2%	0.8%	0.9%	1.3%	1.0%	3.9%
Return on Equity	10.9%	10.3%	9.5%	7.4%	13.7%	9.3%	10.3%	16.0%	11.2%	33.8%
ROIC	8.7%	8.3%	7.7%	5.9%	10.8%	7.4%	8.2%	12.8%	8.9%	25.4%
Shares Out.	89	89	87	87	87	88	89	90	86	85
Revenue/Share	51.69	55.95	63.00	68.74	73.42	76.45	77.14	67.21	63.57	72.79
FCF/Share	8.52	8.33	13.53	15.13	12.99	20.09	22.99	26.99	24.47	20.02

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