



Cincinnati Financial Corp. (CINF)

Updated May 12th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$125	5 Year CAGR Estimate:	6.0%	Market Cap:	\$20.1 B
Fair Value Price:	\$113	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/16/2022
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	07/15/2022
Dividend Yield:	2.2%	5 Year Price Target	\$151	Years Of Dividend Growth:	62
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$20.1 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 April 28, 2022, Cincinnati Financial reported the first quarter results for Fiscal Year (FY)2022. Total revenues were \$1,215 million for the quarter compared to \$2,227million in 1Q2021. Thus, revenues were down (45)% year over year. Earned premiums were up 9% year over year. CINF generated a net income loss of \$(273) million, or \$(1.70) per share, compared to a profit of \$620 million, or \$3.82 per share, in the first quarter of 2021. The loss was due to recognizing a \$540 million first-quarter 2022 after-tax reduction in the fair value of equity securities still held.

On a non-GAAP operating income basis, the company made \$253 million for the quarter, up \$31 million or 14% compared to the first quarter of 2021. For the quarter, non-GAAP operating income is up 15%, from \$1.37 per share in 1Q2021 to \$1.58 per share. The company book value increased 9% year over year to \$75.43 but is down \$6.29 since year-end. The first quarter was the company's highest-ever single quarter of new business written premiums, reaching \$244 million. The company plans to continue to look for opportunities to appoint new agents. So far this year, the company appointed 51 agencies to offer its property-casualty products.

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 \$5.65. This is a decrease of (11.9%).

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	\$5.65	\$7.56
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	\$75.43	\$121.48
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 15.6% over the past five years. Consensus analysts expect earnings to grow by 6% for the next five years. Book value, a significant metric for insurance companies, has increased by 10.4% over the past nine years and 8.4% 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.

¹ Share count is in millions.

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Bond yields are at historic lows, putting significant pressure on forwarding investment returns. We have a baseline forecast of 6% earnings and 10% book value growth over the next five years, but the estimate depends on 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	22.1	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%	2.3%

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 than its historical norm at 22.1 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 (2.0)%.

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%	49%	47%

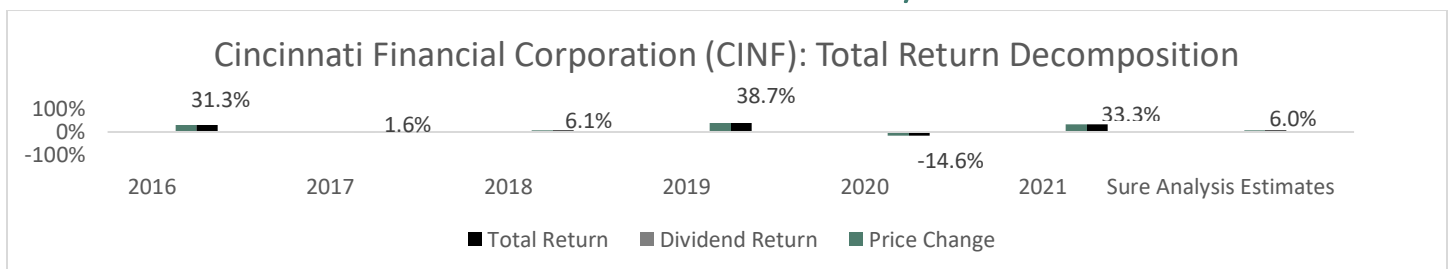
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully 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 6.0% 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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