CNA Financial Corp. (CNA)

Updated May 16th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$11.9 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	05/13/22
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	06/02/22
Dividend Yield:	3.6%	**5 Year Price Target**	$53	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Founded in 1897 and headquartered in Chicago, IL, CNA Financial is one of the largest U.S. Commercial Property and Casualty insurance companies. The company operates under five segments: Specialty, Commercial, International, Life & Group and Corporate & Other – offering property and casualty coverage, life, accident and health insurance and retirement products and annuities. Loews Corporation (L) owns approximately 89% of CNA's shares. Last year the $13 billion market cap company, serving over 1 million businesses and professionals, generated $1.1 billion in profit.

On May 2nd, 2022, CNA reported Q1 results for the period ending March 31st, 2022. For the quarter, the company posted net income of $313 million or $1.15 per share compared to $312 million or $1.14 per share in Q1 2021. Core income – which excludes investment gains or losses – equaled $316 million or $01.16 per share compared to $263 million or $0.96 per share last year.

Improved profitability was driven by a decrease in catastrophe losses and improved non-catastrophe current accident year underwriting results. These drivers were partially offset by lower net investment income driven by limited partnership and common stock returns.

The underlying combined ratio, which divides the sum of claim-related losses and business expenses by premiums earned, was 91.9% vs. 98.1% in Q1 2021, reflecting the lowest combined ratio since 2008. Adjusted book value per share equaled $44.67, 2.9% lower vs. $46.02 at the end of 2021, but 2% higher adjusting for $2.40 of total dividends per share. Based on the company's performance in Q1 and current market conditions, we forecast core EPS of $4.13 for fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.17	$3.85	$3.14	$1.90	$3.05	$3.38	$3.11	$3.59	$2.70	$4.06	***$4.13***	***$4.79***
DPS	$0.55	$0.80	$1.00	$1.00	$1.00	$1.10	$1.30	$1.40	$1.48	$1.52	***$1.60***	***$1.85***
Shares[1]	269.4	269.7	270.0	270.3	270.5	271.2	271.5	271.4	271.4	271.4	***271.8***	***273.0***

Note that we are using core earnings, as we believe this better reflects the long-term earnings power of the company. CNA has put together a volatile, but positive business record over the last decade. This is to be expected from an insurer, as premiums tend to be consistent, but claims will vary dramatically. From 2010 through 2020, CNA grew EPS at a rate of 2.1% per year. However, results improved markedly in 2021.

While CNA's history may not set a strong precedent for growth, we are of the opinion that a slow and steady approach is warranted in this industry. Insurers do not know their liabilities for many years, and it can be easy to underprice policies to chase growth. This was especially relevant during the past couple of years, given the COVID-19 pandemic and the uncertainties (still) surrounding future equity gyrations and insurance related losses; especially those pertained to weather.

We believe CNA could generate growth over the intermediate term via ongoing policy price increases, a combined ratio that continues to improve and higher interest rates over the long-term, which would help the fixed maturity holdings. We are forecasting earnings to continue to rise in 2022 and we are assuming a 3% intermediate term growth rate.

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[1] In millions.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.9	9.2	12.7	20.2	11.0	14.1	15.4	12.7	12.9	10.7	***10.7***	***11.0***
Avg. Yld.	2.0%	2.3%	2.5%	2.6%	3.0%	2.3%	2.7%	3.1%	4.2%	3.5%	***3.6%***	***3.5%***

Over the past decade, shares of CNA have traded hands with an average multiple of around 13.2 times earnings. We believe 11 times earnings is a reasonable starting place, given the volatile results of the business and relatively low growth expectation compared to other companies in the industry. With shares currently trading at 10.7 times our earnings estimate, this implies soft valuation headwinds. Note that while CNA has paid a substantial special dividend every year since 2014, we have not included this in our forecasts. This year, it paid a special dividend amounting to a substantial $2 per share. As such, this component could very well be understated in our dividend return estimates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	25%	21%	32%	53%	33%	33%	42%	39%	55%	37%	***39%***	***39%***

While CNA's business results have been markedly positive during the last decade, we do not believe the firm has a material competitive advantage given that insurance products are commodity-like in nature.

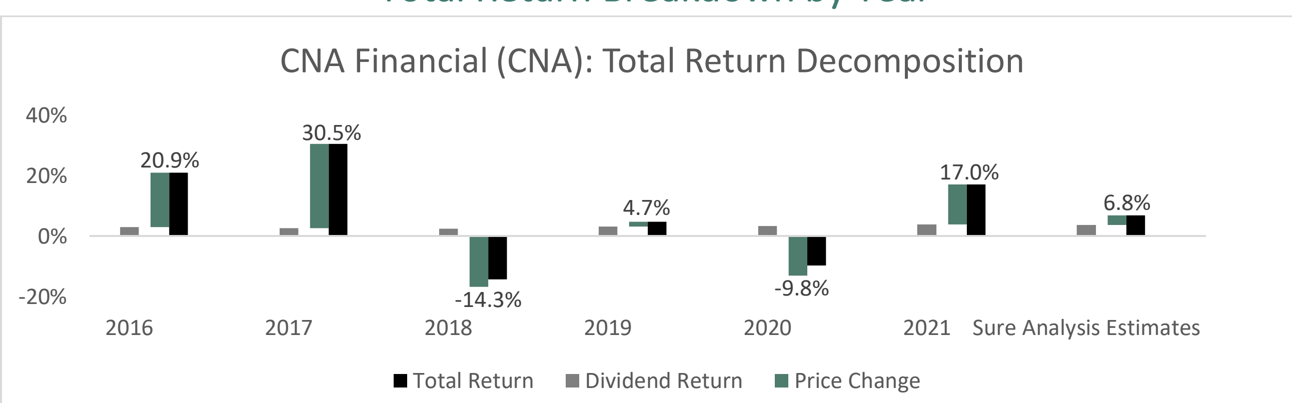
CNA is not necessarily beholden to economic conditions as much as it is to the timing of insurance related losses. That being said, many of the company's customers are sensitive to recessions, which will put pressure on the company in lesser times. During the Great Recession, CNA posted earnings-per-share of $3.90, $1.91, $3.42, $2.20, and $2.28 during the 2007 through 2011 stretch. Moreover, the dividend was cut from $0.45 to zero during 2009 and 2010, before being reinstated at $0.40 in 2011. This is a cautionary tale for what could happen during the next downturn.

Today the company appears to be in reasonable financial shape, with A+ and A2 ratings from S&P and Moody's. Moreover, we are encouraged by the annual special dividend as this shows both a penchant for returning capital to shareholders and flexibility if the firm needs it in the future.

Final Thoughts & Recommendation

Shares are slightly down year-to-date. CNA Financial has put together a positive, albeit volatile record in the past decade. Moreover, the growth rate has not been especially strong. Still, this is to be expected in the industry and we are encouraged by the capital allocation decisions being made. We are projecting 6.8% annual total return potential, stemming from 3% growth, a valuation headwind and the 3.6% starting dividend yield, which may be understated if special dividends continue to accrue. Shares earn a hold 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	$9,364	$9,932	$9,692	$9,101	$9,366	$9,542	$10,134	$10,767	$10,690	$11,510
D&A Exp.	$125	$101	$83	$84	$77	$88	$79	$68	$60	$54
Net Profit	$628	$937	$691	$479	$859	$899	$813	$1,000	$690	$1,202
Net Margin	6.7%	9.4%	7.1%	5.3%	9.2%	9.4%	8.0%	9.3%	6.5%	10.4%
Free Cash Flow	$1,156	$1,113	$1,369	$1,262	$1,270	$1,152	$1,128	$1,114	$1,752	$1,971
Income Tax	$239	$361	$319	$70	$278	$411	$151	$223	$131	$282

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	$58,522	$57,194	$55,566	$55,045	$55,233	$56,567	$57,152	$60,612	$64,030	$66,640
Cash & Equiv.	$156	$195	$190	$387	$271	$355	$310	$242	$419	$536
Accounts Rec.	$8,040	$7,996	$6,630	$6,531	$6,625	$6,553	$6,749	$6,628	$7,064	$8,408
Goodwill & Int.	$267	$248	$237	$231	$214	$220	$214	$216	$217	$215
Total Liabilities	$46,208	$44,543	$42,772	$43,289	$43,264	$44,323	$45,935	$48,397	$51,320	$53,830
LT Debt	$2,570	$2,560	$2,559	$2,560	$2,710	$2,858	$2,680	$2,679	$2,776	$2,779
Book Value	$12,314	$12,651	$12,794	$11,756	$11,969	$12,244	$11,217	$12,215	$12,710	$12,810
LTD/E Ratio	0.21	0.20	0.20	0.22	0.23	0.23	0.24	0.22	0.22	0.22

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.1%	1.6%	1.2%	0.9%	1.6%	1.6%	1.4%	1.7%	1.1%	1.8%
Return on Equity	5.3%	7.5%	5.4%	3.9%	7.2%	7.4%	6.9%	8.5%	5.5%	9.4%
ROIC	4.3%	6.2%	4.5%	3.2%	5.9%	6.0%	5.6%	6.9%	4.5%	7.7%
Shares Out.	269.8	270.2	270.6	270.7	271.1	272.1	272.5	272.5	272.4	272.8
Revenue/Share	$34.71	$36.76	$35.82	$33.62	$34.55	$35.07	$37.19	$39.51	$39.23	$42.18
FCF/Share	$4.28	$4.12	$5.06	$4.66	$4.68	$4.23	$4.14	$4.09	$6.43	$7.23

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