American Financial Group (AFG)

Updated November 20th, 2022, by Tiago Dias

Key Metrics

Current Price:	$142	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$12.0 B
Fair Value Price:	$143	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/14/2023[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	01/25/2023[1]
Dividend Yield:	1.8%	**5 Year Price Target**	$210	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $12.0 billion market cap company has regularly increased its quarterly dividend since 2006.

AFG reported Q3 2022 earnings on November 2nd, 2022. For the quarter, earnings-per-share equalled $1.93, below the $2.56 per share that the company reported for the same period in 2021. While the company has not yet announced the exact date of their next dividend, we expect that it will be declared shortly with an ex-dividend date of 14th of January 2023, and to be paid on the 25th of January.

The management team has revised their core net operating earnings in 2022 to be in the range of $11.00 to $11.75 per share, an increase of its previous range of $10.75 to $11.75 per share. The management team is satisfied with the performance of the business during a period of elevated industry losses. The P&C group claims team has been working with the company's agents and policyholders to identify and process covered claims quickly and efficiently.

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	***$2.52***	***$3.70***
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 $3.70 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	***12.9***	***13.0***
Avg. Yld.	1.9%	1.6%	1.6%	1.5%	1.6%	1.3%	1.3%	1.6%	2.4%	1.7%	***2.0%***	***1.8%***

[1] Estimated date.

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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

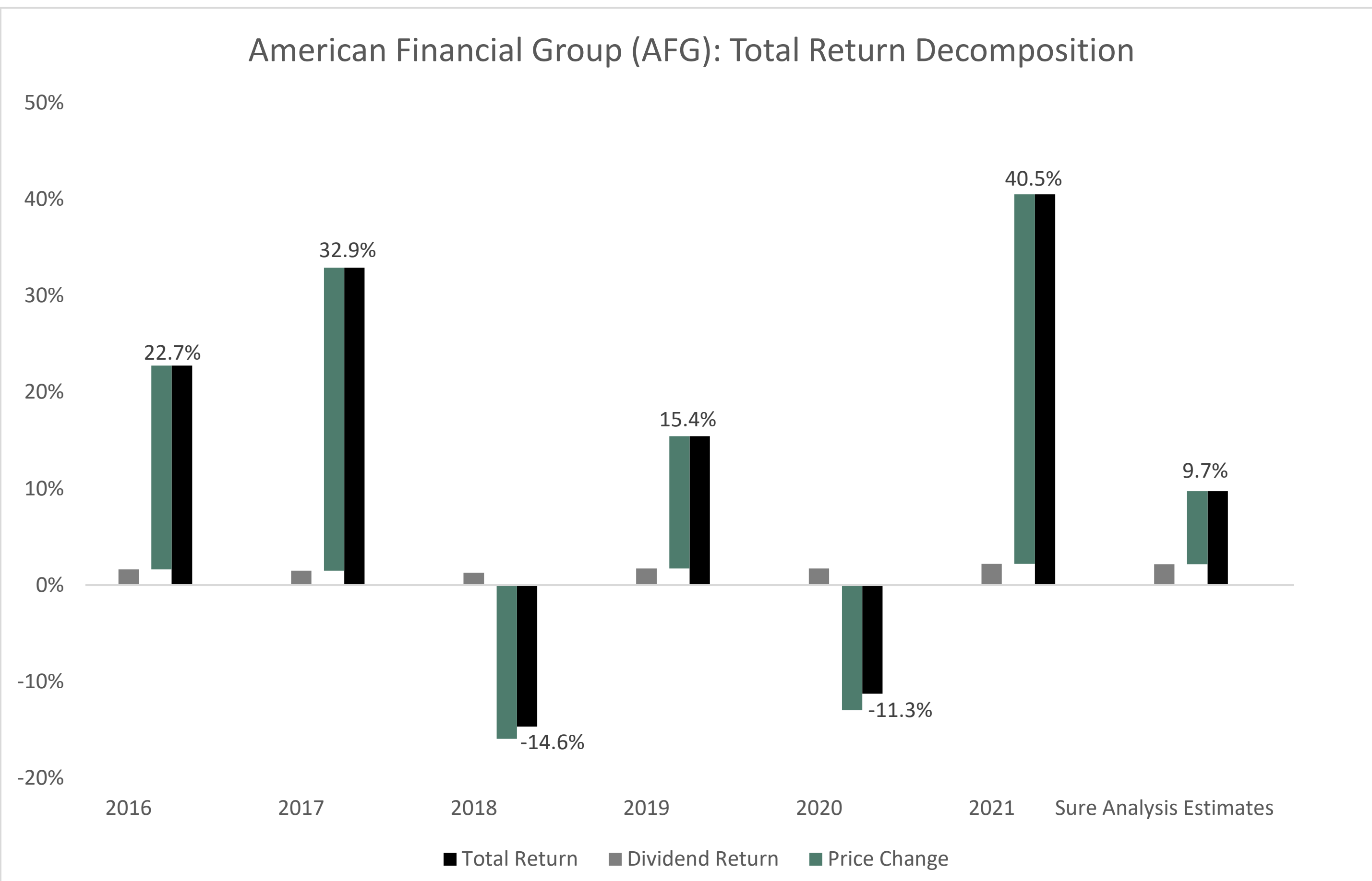
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	19%	19%	19%	19%	20%	17%	19%	22%	18%	***23%***	***23%***

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 1.8% dividend yield, and an expected 8% earnings growth, we estimate that the total return for AFG will be around 9.7% 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 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	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.