



Allstate Corporation (ALL)

Updated February 5th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	2.6%	Market Cap:	\$35 B
Fair Value Price:	\$88	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	02/25/2023
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date²:	04/01/2023
Dividend Yield:	2.6%	5 Year Price Target	\$130	Years of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Allstate Corporation is an insurance company that offers property and casualty insurance to its customers. The company also sells life, accident, and health insurance products. Its segments include Allstate Protection, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, etc. Allstate's insurance brands include Allstate, Encompass, and Esurance. Allstate Corporation was founded in 1931 and the company is headquartered in Northbrook, IL. Allstate is currently trading with a market capitalization of \$35 billion.

Allstate Corporation reported fourth quarter 2022 results on February 1st, 2022, for the period ending December 31st, 2022. The company reported consolidated revenues of \$13.6 billion for the quarter, a 4.9% year-over-year increase. Property and casualty insurance premiums totaled \$11.9 billion, up 9.7% from \$10.9 billion in the same period a year ago. Adjusted net income per share of (\$1.36) was an unfavorable decline from \$2.75 a year ago, due to increased claims severity, unfavorable prior year reserve reestimates, increased catastrophe losses, and lower net investment income.

Total policies in force decreased YoY, from 191 million to 189 million, a 1% decrease. The trailing twelve months adjusted net income return on common shareholder's equity was -1.3%, 18.2 points lower than last year's 16.9%. The company returned \$582 million to shareholders through dividends and share repurchases in Q4 2022. Book value per share decreased 29% YoY to \$58.07.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.70	\$5.42	\$5.21	\$4.89	\$6.71	\$8.86	\$10.43	\$14.29	\$13.48	(\$0.97)	\$8.42	\$12.37
DPS	\$1.00	\$1.12	\$1.18	\$1.29	\$1.45	\$1.84	\$2.00	\$2.16	\$3.24	\$3.40	\$3.40	\$4.34
Shares³	449.0	418.0	381.0	366.0	355.0	342.0	326.0	314.0	280.6	263.5	255.0	240.0

Allstate's profits took a large hit during the last financial crisis. Earnings once peaked in 2006 at \$7.67 and continued to drop for several years before bottoming out in 2011, more than 80% below the peak that was hit five years earlier. Since then, profits have recovered, though, and have risen to new record highs since 2018, and through to 2020. 2021 fell just short of its 2020 high, while 2022 results were gruesome due to increased claims severity and unfavorable prior year reserve reestimates, lower net investment income and policies in force, and higher costs and expenses. From \$8.42 per share forecasted for 2023, we estimate Allstate can produce 8% annualized earnings growth to generate \$12.37 in 2028.

The insurance industry is not a high-growth industry, nevertheless, Allstate has managed to grow earnings successfully over the long-term, with ebbs and flows over certain time periods. Higher contract volumes are a good indicator for the company's near-term growth. Allstate should benefit from rising interest rates, as this allows the company to deploy the insurance float more profitably, which should bolster profit growth as well. The company has very successfully reduced its share count throughout the last decade. It is likely that share repurchases will remain a key factor for earnings-per-

¹ Estimate based on last year's date

² Estimate based on last year's date

³ in millions.

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share growth going forward as well. In the last 12 months, the company repurchased 6.1% of common shares outstanding. We would consider Allstate to be a shareholder-friendly company.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	8.7	11	12.6	13.8	13.1	10.3	13.5	7.5	9.2	-	15.6	10.5
Avg. Yld.	1.5%	1.9%	1.8%	1.9%	1.6%	2.2%	1.9%	2.1%	2.2%	2.2%	2.6%	3.3%

Allstate Corporation trades at 15.6 times this year's forecasted earnings. This is well above the 10-year average PE of 11.1. We believe that shares are significantly overvalued here, which implies a valuation headwind. Allstate's dividend yield is above that of the broad market at 2.6% and is elevated in comparison to its average historical yield of 2.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

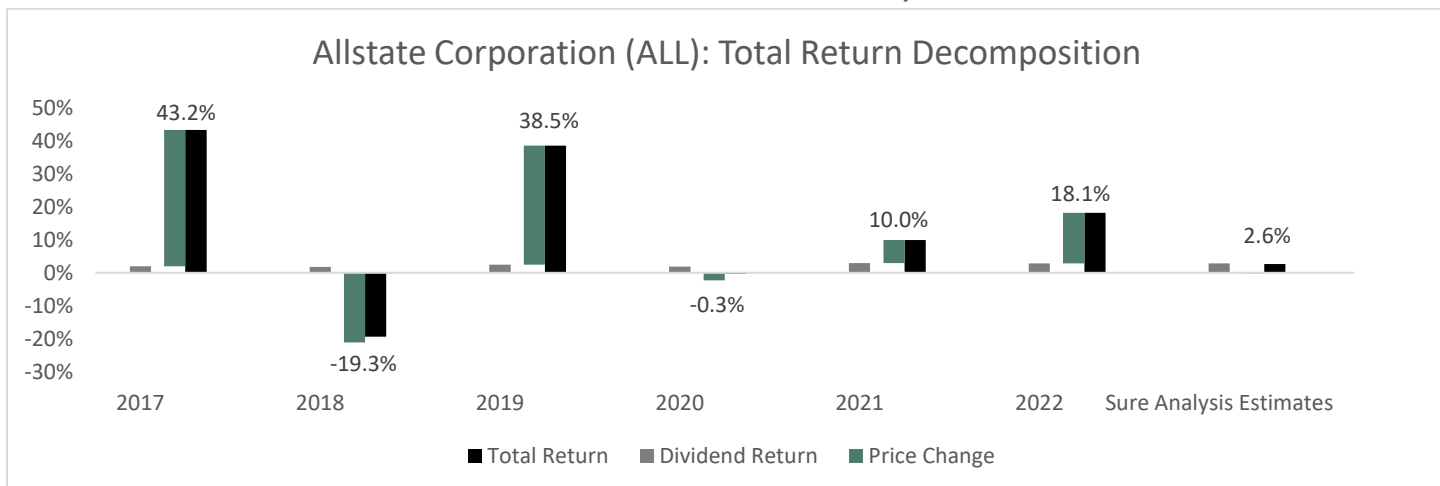
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	21%	23%	26%	22%	21%	19%	15%	24%	-	40%	35%

Allstate saw its profits shrink considerably during the last financial crisis, which is why the company cut its dividend during those troubled times. The dividend was cut from 2008 to 2009 as well as from 2009 to 2010. The dividend payout ratio is quite low, though, and there have been no cuts to earnings estimates for the company due to the coronavirus pandemic. Allstate even provided a Shelter-in-Place Payback of over \$900 million to customers since customers drove less due to social distancing. Still, adjusted net income saw strong growth. The risk of another dividend cut during the next couple of years is relatively low, even with the underperformance we saw in 2022. Allstate does not have strong recession performance; its profits declined massively, and it took the company until 2018 to breach its earnings-per-share record that the company set in 2006. Allstate is thus not a resilient investment. Allstate is highly reliant on auto insurance, which is responsible for more than 50% of revenues. Shifts towards more autonomous driving or ride sharing could thus turn into a headwind in the distant future.

Final Thoughts & Recommendation

Allstate is one of the largest American insurers and a very shareholder-friendly company. We are forecasting total annualized returns of 2.6% in the intermediate term, and the stock is trading significantly above our estimate of fair value. As a result of this overvaluation, Allstate earns a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	34,507	35,239	35,653	37,399	39,407	39,815	44,675	44,791	50,588	51,412
SG&A Exp.					-217	468	114	-51	-644	116
D&A Exp.	368	366	371	382	483	511	647	686		
Net Profit	2,280	2,850	2,171	1,877	3,554	2,160	4,847	5,576	1,599	-1311
Net Margin	6.6%	8.1%	6.1%	5.0%	9.0%	5.4%	10.8%	12.4%	3.2%	-2.5%
Free Cash Flow	4,035	2,948	3,313	3,680	4,015	4,898	4,696	5,183		
Income Tax	1,116	1,386	1,111	877	995	468	1,242	1,383	1,289	-494

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	123,520	108,479	104,656	108,610	112,422	112,249	119,950	125,987	99,440	97,957
Cash & Equivalents	675	657	495	436	617	499	338	377	763	736
Acc. Receivable	12,858	13,955	14,062	14,342	14,707	15,719	15,683	15,699	18,388	18,771
Goodwill & Int.	1,243	1,219	1,219	1,219	2,737	3,243	3,026	2,997	3,502	3,502
Total Liab. (\$B)	102,040	86,175	84,631	88,037	89,871	90,937	93,952	95,770	74,313	80,607
Long-Term Debt	6,201	5,140	5,124	6,347	6,350	6,451	6,631	7,825	7,976	7,964
Total Equity	20,700	20,558	18,279	18,827	20,805	19,382	23,750	28,247	23,209	15,505
LTD/E Ratio	0.29	0.23	0.26	0.31	0.28	0.30	0.26	0.26	0.32	0.46

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.8%	2.5%	2.0%	1.8%	3.2%	1.9%	4.2%	4.5%	1.4%	-1.3%
Return on Equity	11.0%	13.8%	11.2%	10.1%	17.9%	10.7%	22.5%	21.4%	6.2%	-6.8%
ROIC	8.4%	10.3%	8.3%	7.2%	12.7%	7.6%	16.1%	15.8%	4.5%	-4.5%
Shares Out.	449.0	418.0	381.0	366.0	355.0	342.0	326.0	314.0	280.6	271.2
Revenue/Share	73.37	80.42	87.64	99.12	107.14	112.73	133.96	141.97	169.13	189.57
FCF/Share	8.58	6.73	8.14	9.75	10.92	13.87	14.08	16.43		

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