



Cincinnati Financial Corp. (CINF)

Updated February 20th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$127	5 Year CAGR Estimate:	4.4%	Market Cap:	\$19.9 B
Fair Value Price:	\$105	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/16/2023
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	04/14/2023
Dividend Yield:	2.4%	5 Year Price Target	\$140	Years Of Dividend Growth:	63
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 \$19.9 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 February 6th, 2023, Cincinnati Financial reported the fourth quarter and full year results for Fiscal Year (FY)2022. Total revenues were \$3.1 billion for the quarter compared to \$3.3 billion in 4Q2021. Thus, revenues were down (6)% year over year. However, Earned premiums were up 12% year over year from \$1.7 billion in 4Q2021 to \$1.9 billion in 4Q2022. Earned premiums growth was driven by 10% growth net written premiums, including price increases, premium growth initiatives and a higher level of insured exposures. Also, there were \$238 million in 4Q2022 property casualty new business written premiums. Agencies appointed since the beginning of 2021 contributed \$20 million or 8% of total fourth-quarter new business written premiums.

For the full year, total revenue were down (32)% compared to FY2021. However, earned premiums increased 11% year over year. Also, the company had a net loss of \$486 million, or \$(3.06) per share, compared with net income of \$2.946 billion, or \$18.10 per share, in 2021. Overall, Non-GAAP was \$4.24 per share compared to \$6.41 per share in 2021, this is a decrease of (34)% year over year.

The company also announced its 63 year in a row dividend increase of 8.7%. The current dividend is now \$0.75 per share per quarter, compared to its prior dividend of \$0.69 per share per quarter.

We estimate that Earnings Per Share (EPS) for 2023 to be \$5.23 per share. This is a increase of 23.3% compared to 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.81	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	\$4.20	\$3.28	\$6.41	\$4.24	\$5.23	\$7.00
DPS	\$1.66	\$1.76	\$1.84	\$1.92	\$2.00	\$2.12	\$2.24	\$2.40	\$2.52	\$2.76	\$3.00	\$3.83
BPS	\$37.24	\$40.15	\$39.21	\$42.94	\$50.29	\$48.11	\$60.50	\$67.04	\$81.72	\$67.01	\$60.01	\$96.65
Shares¹	165.0	165.0	165.0	167.0	166.0	165.0	165.0	162.0	162.7	158.8	157.0	155.0

Cincinnati Financial has grown earnings by 4.7% per year over the past nine years and 9.3% 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 6.7% over the past nine years and 4.5% 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. We have a baseline forecast of 6% earnings and 10% book value growth over the next

¹ Share count is in millions.

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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17	18.3	15.2	22.7	26.8	22.3	25.0	26.6	17.8	24.1	24.3	20.0
Avg. P/B	1.28	1.21	1.38	1.62	1.46	1.55	3.8	1.3	1.4	0.7	2.1	1.6
Avg. Yld.	3.5%	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	2.6%	2.2%	2.7%	2.4%	2.7%

Cincinnati Financial has averaged a 21.6 P/E ratio over the past decade. The P/B ratio has averaged 1.6. The company is slightly higher than its historical norm with a current PE of 24.3 P/E and 2.1 P/B valuations. We expect a mean reversion to 20 P/E as the base case, implying a headwind of (3.8)%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	59%	66%	52%	63%	73%	63%	53%	73%	39%	65%	57%	55%

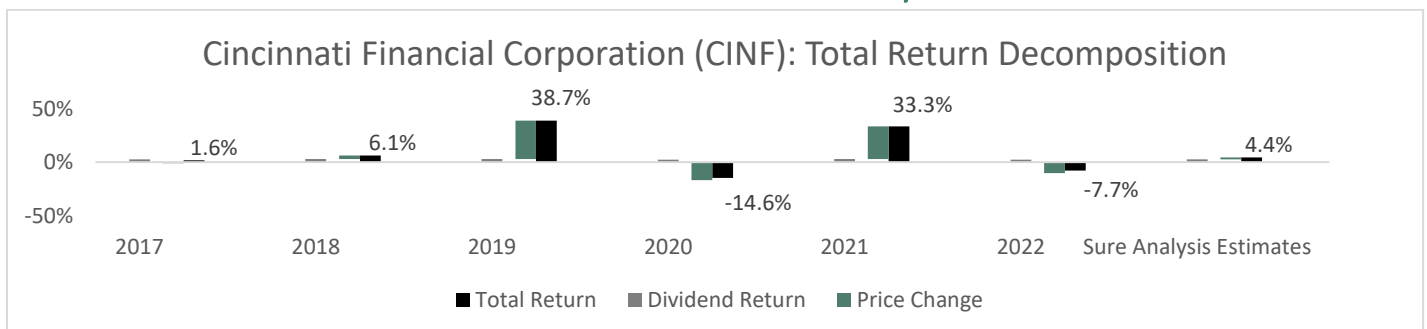
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully 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 12.9 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 4.4% annually for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,531	4,945	5,142	5,449	5,732	5,407	7,924	7,536	9,630	6,557
D&A Exp.	50	51	52	48	55	63	72	81	93	
Net Profit	517	525	634	591	1,045	287	1,997	1,216	2,946	-486
Net Margin	11.4%	10.6%	12.3%	10.8%	18.2%	5.3%	25.2%	16.1%	30.6%	-7.4%
Free Cash Flow	789	864	1,065	1,102	1,036	1,161	1,184	1,471	1,966	
Income Tax	197	196	247	221	-315	-36	475	283	724	-207

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	17,662	18,748	18,888	20,386	21,843	21,935	25,408	27,542	31,387	29,736
Cash & Equivalents	433	591	544	777	657	784	767	900	1,139	1,264
Acc. Receivable	1,893	1,950	1,973	2,078	2,021	2,128	2,387	2,396	2,623	2,962
Total Liabilities	11,592	12,175	12,461	13,326	13,600	14,102	15,544	16,753	18,282	19,205
Long-Term Debt	894	835	821	807	811	820	827	842	843	891
Total Equity	6,070	6,573	6,427	7,060	8,243	7,833	9,864	10,789	13,105	10,531
LTD/E Ratio	0.15	0.13	0.13	0.11	0.10	0.10	0.08	0.08	0.06	0.08

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.0%	2.9%	3.4%	3.0%	4.9%	1.3%	8.4%	4.6%	10.0%	-1.6%
Return on Equity	9.0%	8.3%	9.8%	8.8%	13.7%	3.6%	22.6%	11.8%	24.7%	-4.1%
ROIC	7.7%	7.3%	8.7%	7.8%	12.4%	3.2%	20.6%	10.9%	23.0%	-3.8%
Shares Out.	165.0	165.0	165.0	167.0	166.0	165.0	165.0	162.0	162.7	158.8
Revenue/Share	27.39	29.95	31.05	32.73	34.53	32.87	48.00	46.40	59.19	41.28
FCF/Share	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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