American Financial Group (AFG)

Updated May 6th, 2023 by Tiago Dias

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	14.5%	**Market Cap:**	$9.7 B
Fair Value Price:	$143	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/19/2023[1]
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.5%	**Dividend Payment Date:**	05/27/2023[1]
Dividend Yield:	2.3%	**5 Year Price Target**	$210	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 $9.7 billion market cap company has regularly increased its quarterly dividend since 2006.

AFG reported Q1 2023 earnings on May 2nd, 2023. For the quarter, earnings-per-share equaled $2.49, below the $3.40 per share that the company reported for the same period in 2022. The company has not yet declared a regular quarterly dividend, but one is expected to be declared shortly by the company.

The management team is pleased to report a strong start to the year, with a first quarter annualized core operating return on equity of 22%. The company's Specialty P&C businesses produced strong underwriting margins, with the higher interest rate environment improving investment income compared to the first quarter of 2022.

The company had approximately $1 billion of excess capital at March 31st, and means to return that capital to shareholders via a combination of dividends, buybacks and special dividends. Additionally, some of that capital will be deployed into AFG's core businesses as they identify opportunities for healthy profitable organic growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.22	$4.82	$5.43	$6.03	$6.56	$8.40	$8.62	$8.44	$11.60	$10.53	***$11.00***	***$16.16***
DPS	$0.81	$0.91	$1.03	$1.15	$1.29	$1.45	$1.65	$1.85	$2.06	$2.52	***$2.60***	***$3.82***
Shares	89	87	87	87	88	89	90	86	85	85	***85.0***	***82.0***

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 slow down 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 2028, where earnings-per-share would stand at around $16.16 per share, and its quarterly dividend around $3.82 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.9	12.1	12.3	12.2	15.1	12.9	11.8	9.1	10.6	10.7	***10.5***	***13.0***
Avg. Yld.	1.6%	1.6%	1.5%	1.6%	1.3%	1.3%	1.6%	2.4%	1.7%	2.4%	***2.3%***	***1.8%***

[1] Estimated

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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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 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	19%	19%	19%	19%	20%	17%	19%	22%	18%	24%	***24%***	***24%***

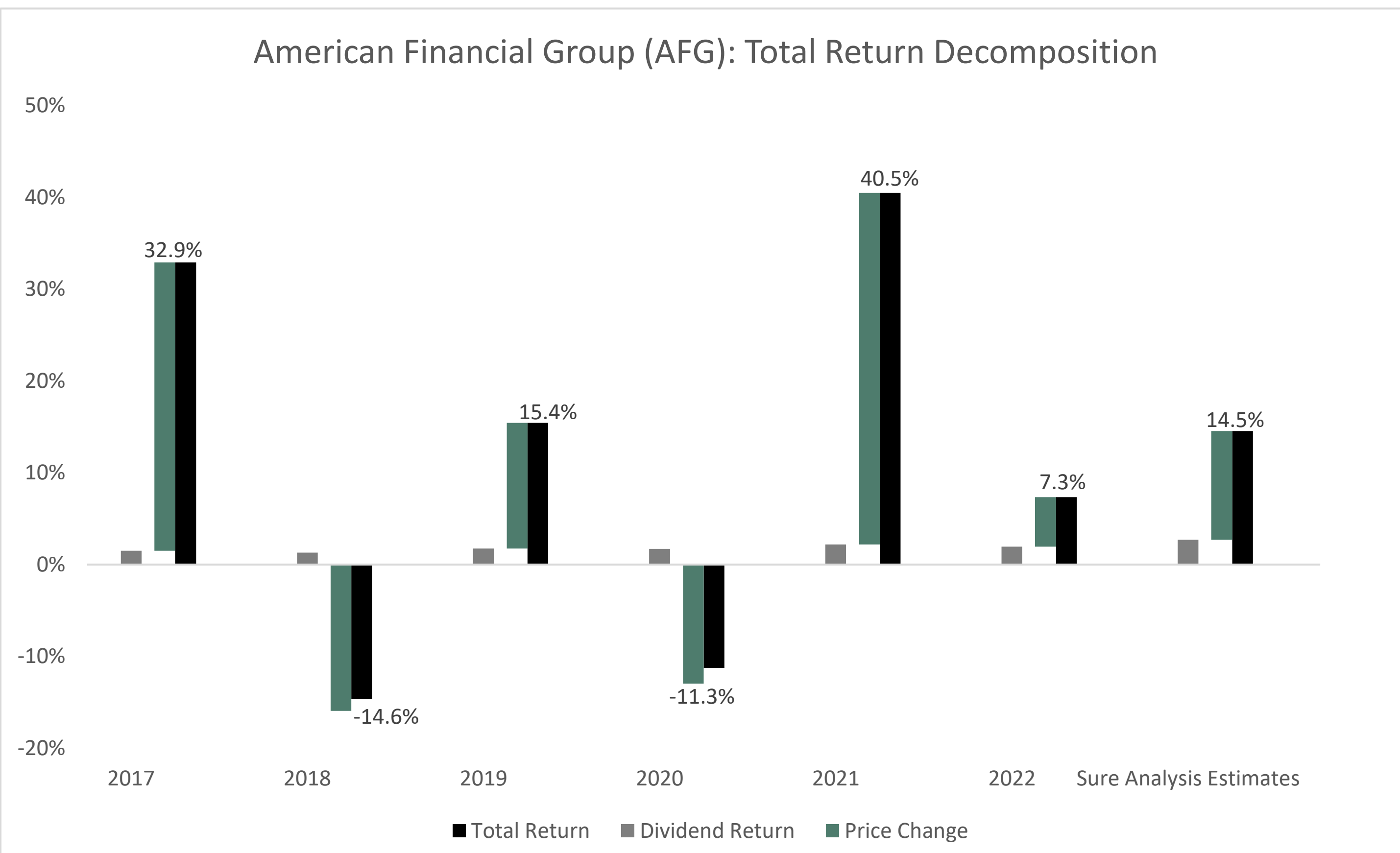
The combination of regular quarterly dividends with special dividends mean that the company can quickly return capital to shareholders in special cases and events, like the recent divestiture of their annuities business, without restricting their ongoing ability to take on new opportunities. Additionally, 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 2.3% dividend yield, and an expected 8% earnings growth, we estimate that the total return for AFG will be around 14.5% 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 Buy 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	5,103	5,733	6,145	6,498	6,865	6,989	6,116	5,670	6,231	7040
D&A Exp.	142	144	134	134	107	210	259	299	187	---
Net Profit	471	452	352	649	475	530	897	732	1,995	898
Net Margin	9.2%	7.9%	5.7%	10.0%	6.9%	7.6%	14.7%	12.9%	32.0%	12.8%
Free Cash Flow	760	1,231	1,353	1,150	1,804	2,083	2,456	2,183	1,714	---
Income Tax	236	220	195	119	247	122	143	25	254	225

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	42,087	47,535	49,837	55,072	60,658	63,456	70,130	73,710	28,931	28831
Cash & Equivalents	1,639	1,343	1,220	2,107	2,338	1,515	2,314	1,665	2,131	872
Acc. Receivable	3,896	4,127	3,573	3,734	4,515	4,583	4,750	4,517	4,784	5316
Goodwill & Int.	185	201	199	199	199	207	207	176	246	246
Total Liabilities	37,318	42,481	45,067	50,153	55,327	58,484	63,861	66,921	23,919	24779
Accounts Payable	2,630	2,872	2,792	2,936	3,700	3,694	3,838	3,924	4,339	1035
Long-Term Debt	913	1,061	998	1,283	1,301	1,302	1,473	1,963	1,964	1496
Total Equity	4,599	4,879	4,592	4,916	5,330	4,970	6,269	6,789	5,012	4052
LTD/E Ratio	0.20	0.22	0.22	0.26	0.24	0.26	0.24	0.29	0.39	0.37

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	1.0%	0.7%	1.2%	0.8%	0.9%	1.3%	1.0%	3.9%	3.1%
Return on Equity	10.3%	9.5%	7.4%	13.7%	9.3%	10.3%	16.0%	11.2%	33.8%	19.8%
ROIC	8.3%	7.7%	5.9%	10.8%	7.4%	8.2%	12.8%	8.9%	25.4%	14.3%
Shares Out.	89	87	87	87	88	89	90	86	85	85.3
Revenue/Share	55.95	63.00	68.74	73.42	76.45	77.14	67.21	63.57	72.79	82.53
FCF/Share	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.