



The Travelers Companies (TRV)

Updated July 23rd, 2023, by Josh Arnold

Key Metrics

Current Price:	\$173	5 Year CAGR Estimate:	5.4%	Market Cap:	\$40 B
Fair Value Price:	\$150	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/07/23
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	09/29/23
Dividend Yield:	2.3%	5 Year Price Target	\$201	Years Of Dividend Growth:	19
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

The Travelers Companies was founded in 1864 in Hartford, CT by two local businessmen. The company began with life and accident insurance but has expanded into other types of coverage in the 150+ years since then. Today, it generates over \$37 billion in annual revenue and has a \$40 billion market capitalization. The company offers a wide and deep variety of protection products for auto, home, and business customers. It is also a member of the Dow Jones Industrial Average, making it the only property casualty insurance provider in the prestigious index.

Travelers posted second quarter earnings on July 20th, 2023, and results were much weaker than expected. Adjusted earnings-per-share were just six cents, an extraordinary miss against expectations of \$2.12. Revenue was up 10.5% year-over-year to \$10.1 billion, which was \$750 million ahead of estimates.

The company struggled with a consolidated combined ratio of 106.5%, meaning it spent 6.5% more than its revenue on claim costs. Catastrophe losses of \$1.481 billion pre-tax was double the year-ago period. On an underlying basis, the combined ratio improved 170bps to 91.1%.

Net written premiums were a new record of \$10.32 billion, up 14% year-over-year. Earnings premium of \$9.22 billion against \$8.85 billion a year ago, as earned premiums were higher in all three segments. Book value per share declined fractionally from last year's Q2 to \$95.46, which was driven by higher interest rates. Net investment income was \$712 million, up from \$707 million a year ago.

We have sharply cut earnings estimates for this year to \$12.50 after massive catastrophe losses in Q2, and a big earnings miss.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$9.46	\$10.56	\$10.87	\$10.13	\$7.27	\$8.94	\$9.60	\$10.48	\$13.94	\$12.47	\$12.50	\$16.73
DPS	\$1.96	\$2.15	\$2.38	\$2.68	\$2.83	\$3.03	\$3.23	\$3.37	\$3.49	\$3.67	\$4.00	\$5.35
Shares¹	354	322	296	280	271	264	259	255	241	241	240	220

After strong growth coming out of the Great Recession, Travelers failed to regain its 2015 high of \$10.87 in earnings-per-share until 2021. Conditions were quite favorable in 2021 in that prior reserve developments were unwound, investment conditions were excellent, and losses were lower than normal. We're expecting 6% growth from here, even with the lower earnings base for 2023.

Travelers could achieve this growth primarily from higher underwritten premiums and the buyback program, although margins should play a part as well, as long as there aren't any large catastrophes. We forecast low single-digit gains from higher revenue as well as a similar tailwind from the company's buyback, which has reduced the float by about a third in just the past decade alone. Recent reductions have been smaller in size given the higher share price, but Travelers is committed to reducing its share count over time. Lower operating expenses should also provide a bit of a boost to earnings, but the Travelers story is about higher premiums, uncertain catastrophe losses, and a lower share count.

¹ Share count 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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The dividend has been raised in the mid-single-digit range annually and we expect that will continue for the foreseeable future. Travelers is not a pure income stock, but its 2.3% yield is still decent by its historical standards, and better than the S&P 500.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	8.8	8.8	9.7	11.2	17.2	14.7	14.5	11.3	11.0	15.0	13.8	12.0
Avg. Yld.	2.3%	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%	2.9%	2.3%	2.0%	2.3%	2.7%

Travelers' price-to-earnings multiple stands at 13.8 times this year's earnings estimate. We therefore see the stock as overvalued given that our estimate of fair value is 12 times earnings. That implies a modest negative impact to annual returns due to the valuation.

We forecast the yield to rise to 2.7% over time as the dividend is raised and as the valuation could moderate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	21%	20%	22%	25%	38%	34%	34%	32%	25%	29%	32%	32%

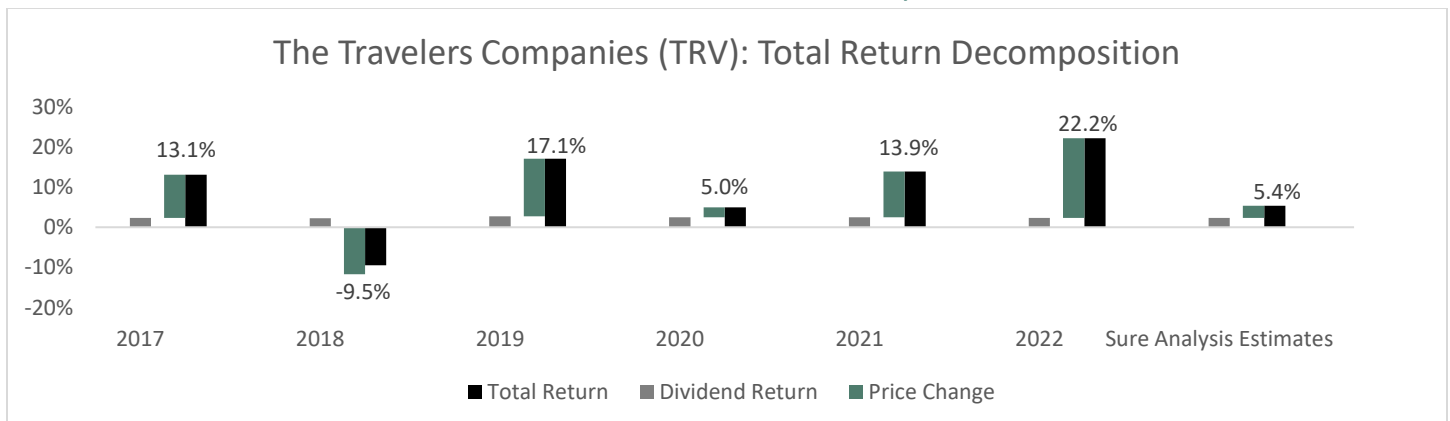
Travelers continues to be conservatively financed, so its balance sheet is in good shape and interest coverage remains robust. We believe the payout ratio should remain around one-third of earnings given that we are forecasting earnings and the dividend to grow at roughly congruent rates. The dividend is, therefore, very safe and we see many more years of increases on the horizon. Importantly, this continues to allow Travelers to buy back hundreds of millions of dollars of its own shares annually.

Travelers' main competitive advantage is in its immense scale and recognizable brand. Its size allows it to underwrite policies that others would not be able to, and its brand is well-known from its long history. Travelers is more susceptible to catastrophes than recessions, as we saw in 2017 and again in 2018. This makes Travelers a defensive play should the economy weaken materially, but we reiterate that insurance companies are susceptible to significant and unforeseen shocks, as Travelers has demonstrated in recent years.

Final Thoughts & Recommendation

Travelers looks like a relatively safe financial services provider with a decent growth outlook. We forecast total annual return potential of 5.4% in the coming years, consisting of the 2.3% yield, 6% earnings-per-share growth and a 2.8% headwind from the valuation. We're reiterating Travelers at a hold 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	26,191	27,174	26,815	27,625	28,902	30,282	31,581	31,981	34,816	36,884
SG&A Exp.	3,757	3,964	4,094	4,154	4,170	4,297	4,365	4,509	4,677	4,810
D&A Exp.	867	864	818	826	813	803	763	789	870	826
Net Profit	3,673	3,692	3,439	3,014	2,056	2,523	2,622	2,697	3,662	2,842
Net Margin	14.0%	13.6%	12.8%	10.9%	7.1%	8.3%	8.3%	8.4%	10.5%	7.7%
Free Cash Flow	3,816	3,693	3,434	4,469	4,148	4,380	5,205	6,519	7,274	6,465
Income Tax	1,272	1,397	1,301	1,039	674	438	516	540	796	512

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	103.8	103.1	100.2	100.2	103.5	104.2	110.1	116.8	120.5	115.7
Cash & Equivalents	294	374	380	307	344	373	494	721	761	799
Acc. Receivable	20,166	19,920	19,721	19,618	20,228	20,661	20,763	20,421	20,427	20,564
Goodwill & Int.	3,985	3,915	3,852	3,848	4,293	4,282	4,291	4,293	4,314	4,239
Total Liabilities	79,016	78,242	76,586	77,024	79,752	81,339	84,179	87,563	91,579	94,157
Accounts Payable	4,626	4,698	4,670	4,882	5,049	5,074	4,982	4,617	4,295	4,015
Long-Term Debt	6,346	6,349	6,344	6,437	6,571	6,564	6,558	6,550	7,290	7,292
Total Equity	24,796	24,836	23,598	23,221	23,731	22,894	25,943	29,201	28,887	21,560
LTD/E Ratio	0.26	0.26	0.27	0.28	0.28	0.29	0.25	0.22	0.25	0.34

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.5%	3.6%	3.4%	3.0%	2.0%	2.4%	2.4%	2.4%	3.1%	2.4%
Return on Equity	14.6%	14.9%	14.2%	12.9%	8.8%	10.8%	10.7%	9.8%	12.6%	11.3%
ROIC	11.7%	11.8%	11.3%	10.1%	6.9%	8.4%	8.5%	7.9%	10.2%	8.7%
Shares Out.	354	322	296	280	271	264	259	255	251	240
Revenue/Share	69.97	79.34	85.43	94.93	103.74	112.24	120.40	125.61	138.32	153.93
FCF/Share	10.20	10.78	10.94	15.36	14.89	16.23	19.84	25.60	29.00	26.97

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

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