



The Hartford Financial Services Group (HIG)

Updated August 2nd, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$72	5 Year CAGR Estimate:	13.9%	Market Cap:	\$21.6 B
Fair Value Price:	\$87	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	08/31/23
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date¹:	10/03/23
Dividend Yield:	2.4%	5 Year Price Target	\$128	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

The Hartford Financial Services Group Inc. (HIG) is a diversified insurer that offers a diverse range of property and casualty (P&C) insurance, group benefits, and mutual fund services to a customer base of individuals and corporations in the United States, the United Kingdom, continental Europe, and internationally. The \$21.6 billion market cap company was founded in 1810 and has approximately 18,100 employees.

On July 27th, 2023, Hartford Financial released its second quarter 2023 results for the period ending June 30th, 2023. For the quarter, the company reported net income of \$542 million which represents a 23% increase compared with net income of \$439 million in the same quarter of 2022. Reported core earnings for the same periods were \$588 million (\$1.88 core earnings per diluted share) and \$716 million (\$2.16 core earnings per diluted share), which represents a core EPS decrease of 13% year-over-year.

The quarterly results benefited from strong performances in the Commercial Lines and Group Benefits businesses. The Commercial Lines unit saw higher premiums written, contributing to its success, while the Group Benefits business benefited from improved fully insured ongoing premiums and a solid core earnings margin. Nevertheless, the upside was partly offset by higher catastrophe losses, inflationary headwinds in personal auto business and an increased expense level. Property & Casualty (P&C) written premiums rose 11% in second quarter of 2023, driven by Commercial Lines premium growth of 12% with increases in all three businesses. The segment Group Benefits' revenues of \$1,724 million improved by 9.3%. In the segment 'Hartford funds', core earnings of \$44 million were flat compared with the prior year period largely driven by higher net investment income, offset by lower fee income net of variable expenses driven by lower daily average Hartford Funds AUM.

Hartford Financial has a modest outlook for 2023 and is anticipating written commercial lines premium growth of 4% to 5%. Written personal lines growth expectations are flat to slightly higher. The bottom line should improve with the two-year restructuring plan (Hartford Next) targeting pretax savings of \$560 million in 2022 and \$625 million in 2023. This program was reported as being on-track at the end of the second quarter of 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.55	\$2.93	\$3.88	\$3.38	\$2.74	\$4.33	\$5.65	\$5.78	\$6.15	\$7.56	\$7.90	\$11.61
DPS	\$0.50	\$0.66	\$0.78	\$0.86	\$0.94	\$1.10	\$1.20	\$1.30	\$1.44	\$1.58	\$1.70	\$2.27
Shares²	453	424	401	373	356	359	359	358	340	315	300	275

Hartford Financial does not have a strong long-term earnings growth track record. The company's earnings-per-share in fiscal 2017 were just below the equivalent figure in 2012. However, in the last five years, the company has been able to grow its earnings-per-share at a 12.8% average annual rate. We expect Hartford Financial to grow its earnings-per-share by 8% per year on average over the next five years, mainly driven by commercial lines premium growth, assisted by optimizing costs and rising yields and interest rates.

¹ Estimated date.

² 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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Hartford Financial has a long history of paying dividends and has 13 consecutive years of annual dividend increases. After the dividend cut due to the financial crisis, its dividend has gone from \$0.40 in 2012 to the most recent annual payment of \$1.70 in 2022. In October 2022, Hartford Financial has increased its quarterly dividend by 10.4% from \$0.385 to \$0.425 per share. The company returned \$484 million to stockholders in the quarter, including \$350 million of shares repurchased and \$134 million in common stockholder dividends paid.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	8.4	12.5	11.2	12.9	19.0	11.7	9.7	7.5	10.4	9.3	9.1	11.0
Avg. Yld.	1.9%	1.8%	1.8%	2.0%	1.8%	2.2%	2.2%	3.0%	2.3%	2.3%	2.4%	1.8%

Hartford Financials' valuation has declined from the peak level that it reached during 2017. In 2020, its share price declined to a level just above \$30. During the past decade shares of Hartford Financial have traded with an average price-to-earnings ratio of about 11 times earnings and today, it stands at 9.1. The current valuation is below the US Insurance industry average (10.4x). We are using 11.0 times earnings as a fair value baseline, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

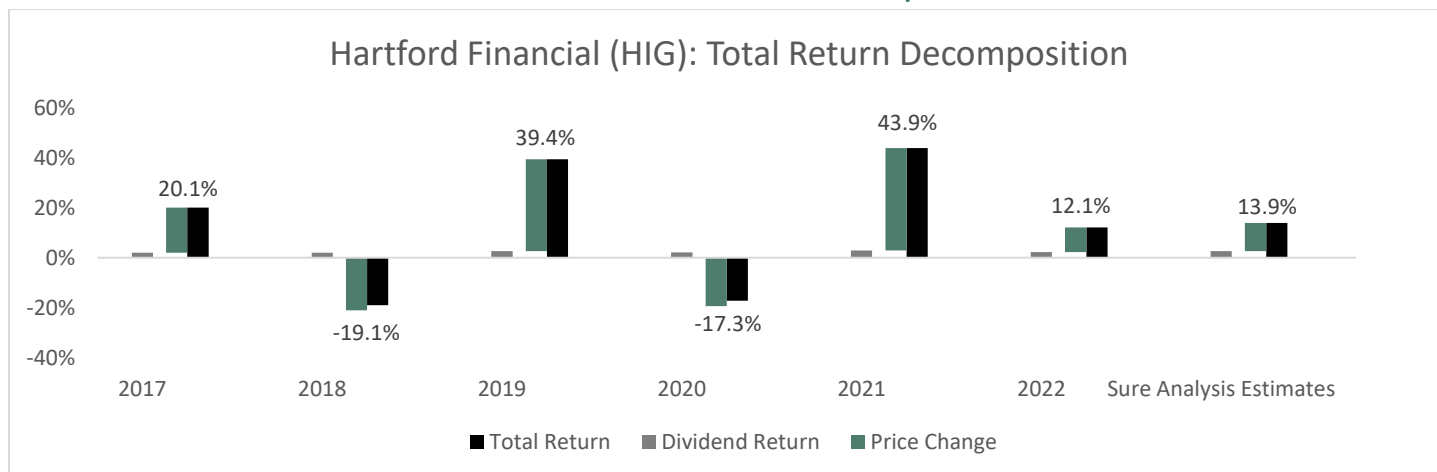
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	14%	23%	20%	25%	34%	25%	21%	22%	23%	21%	22%	20%

During the past decade the company's dividend payout ratio has averaged around 23%. With the current payout ratio of 20%, HIG's dividend payments are well covered by earnings. Given the expected earnings growth, there is still room for the dividend to continue to grow moving forward while maintaining a payout ratio below 30%. The Hartford Financial Services Group is a diversified insurer with market leadership active in desirable segments (CL & PL) with high return characteristics. With their differentiating capabilities the company can strengthen its competitive advantages and is able to grow further.

Final Thoughts & Recommendation

The Hartford Financial Services Group could continue to rise at a steady pace in the long run. The company benefits from four different earnings contributors (commercial lines, personal lines, Hartford funds, and group benefits) and can improve the bottom line with further cost reductions. The expected total returns for Hartford Financial are 13.9% per year, driven by 8% projected earnings growth, a 2.4% dividend yield, and the potential for a valuation tailwind. 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	20,673	18,614	15,997	16,291	17,162	18,750	20,508	20,320	21,649	21,850
D&A Exp.	189	276	373	398	399	467	451	562	680	625
Net Profit	176	798	1,682	896	-3,131	1,807	2,085	1,737	2,365	1,815
Net Margin	0.9%	4.3%	10.5%	5.5%	-18.2%	9.6%	10.2%	8.5%	10.9%	8.3%
Free Cash Flow	1,173	1,765	2,449	1,842	1,936	2,721	3,384	3,757	3,960	3,833
Income Tax	246	350	289	(166)	985	268	475	383	531	443

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	277,884	245,013	228,348	224,576	225,260	62,307	70,817	74,111	76,578	73,020
Cash & Equivalents	1,428	399	448	328	180	112	185	151	205	229
Acc. Receivable	26,795	26,349	26,726	7,389	7,971	8,352	9,911	10,279	10,968	11,920
Goodwill & Int.	498	498	498	611	1,949	1,947	2,983	2,861	2,769	2,689
Total Liabilities	258,979	226,293	210,706	207,673	211,766	49,206	54,547	55,555	58,735	59,390
Long-Term Debt	6,544	6,109	5,359	4,910	4,998	4,678	4,848	4,352	4,944	4,357
Total Equity	18,905	18,720	17,642	16,903	13,494	12,767	15,936	18,222	17,509	13,300
LTD/E Ratio	0.35	0.33	0.30	0.29	0.37	0.36	0.30	0.23	0.28	0.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.1%	0.3%	0.7%	0.4%	-1.4%	1.3%	3.1%	2.4%	3.1%	2.4%
Return on Equity	0.9%	4.2%	9.3%	5.2%	-20.6%	13.8%	14.5%	10.2%	13.2%	11.8%
ROIC	0.6%	3.2%	7.0%	4.0%	-15.5%	10.0%	10.7%	7.9%	10.4%	8.9%
Shares Out.	453	424	401	373	356	359	359	358	340	329.5
Revenue/Share	42.14	40.45	37.62	41.26	47.19	51.50	56.20	56.35	61.14	66.32
FCF/Share	2.39	3.84	5.76	4.67	5.32	7.47	9.27	10.42	11.18	11.63

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

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