



# American Financial Group (AFG)

Updated November 7<sup>th</sup>, 2023 by Tiago Dias

## Key Metrics

<b>Current Price:</b>	\$110	<b>5 Year CAGR Estimate:</b>	15.5%	<b>Market Cap:</b>	\$9.4 B
<b>Fair Value Price:</b>	\$143	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	11/13/2023 <sup>1</sup>
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.4%	<b>Dividend Payment Date:</b>	11/22/2023 <sup>1</sup>
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$210	<b>Years Of Dividend Growth:</b>	17
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$9.4 billion market cap company has regularly increased its quarterly dividend since 2006.

AFG reported Q3 2023 earnings on November 1<sup>st</sup>, 2023. For the quarter, earnings-per-share was \$2.09, above the \$1.93 per share that the company reported for the same period in 2022. The company has not yet declared a regular quarterly dividend, but it has declared a special dividend of \$1.5 per share to be paid soon. With this dividend the company has declared \$5.50 per share in special dividends for 2023.

The management team is pleased with the company's performance during the third quarter. They achieved an annualized core operating return of over 18% in the quarter, with strong underwriting results despite elevated catastrophe losses during the quarter.

The company has confirmed the earlier guidance for full year 2023 earnings of around \$10.15 to \$11.15 per share, reflecting the expectations of a below average crop year, offset by higher-than-previously expected net investment income. At the midpoint of the guidance this would produce a core return on equity of around 20%.

The company had approximately \$660 million of excess capital as of September 30, 2023, and management intends to deploy that capital into AFGs core business as well as returning it to shareholder directly via share buybacks and dividends.

## Growth on a Per-Share Basis

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

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. The specialty insurance business should have 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.

<sup>1</sup> Special Dividend

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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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Avg. P/E</b>	11.9	12.1	12.3	12.2	15.1	12.9	11.8	9.1	10.6	10.7	<b>10.0</b>	<b>13.0</b>
<b>Avg. Yld.</b>	1.6%	1.6%	1.5%	1.6%	1.3%	1.3%	1.6%	2.4%	1.7%	2.4%	<b>2.4%</b>	<b>1.8%</b>

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
<b>Payout</b>	19%	19%	19%	19%	20%	17%	19%	22%	18%	24%	<b>24%</b>	<b>24%</b>

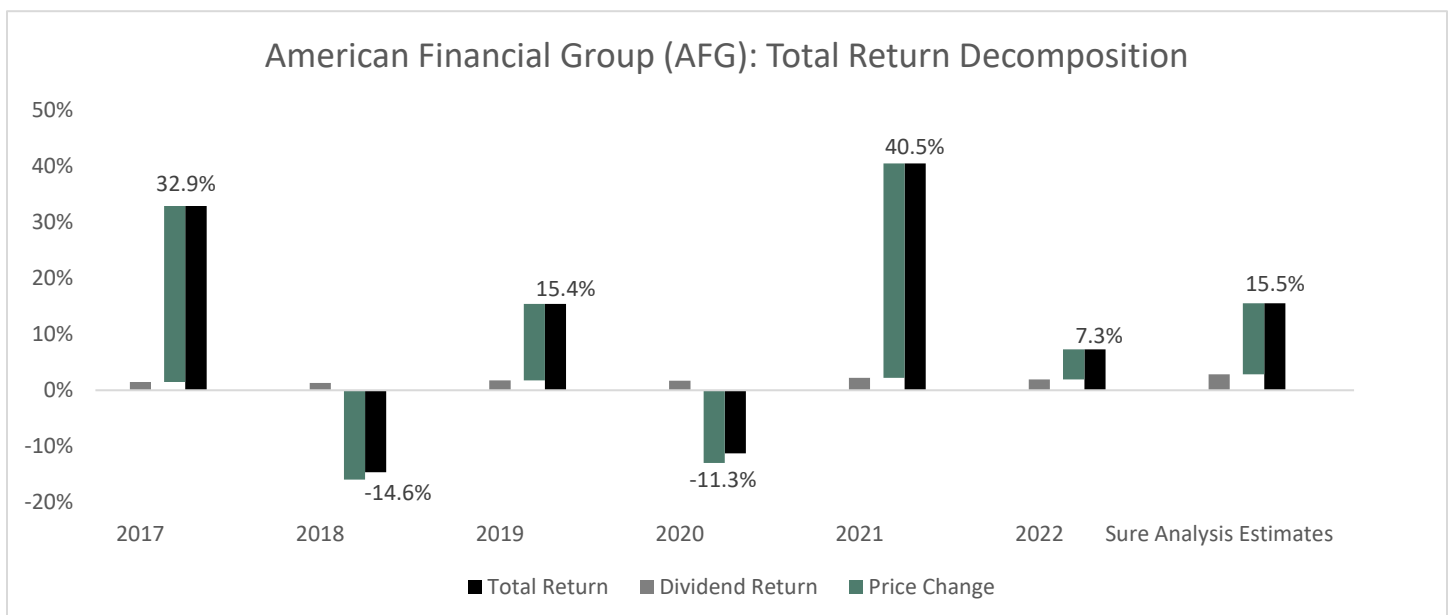
The combination of regular quarterly dividends with special dividends mean that the company can quickly return capital to shareholders in special cases and events, like the recent divestiture of their annuities business, without restricting their ongoing ability to take on new opportunities. Additionally, 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 2.4% dividend yield, and an expected 8% earnings growth, we estimate that the total return for AFG will be around 15.5% 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
<b>Revenue</b>	5,103	5,733	6,145	6,498	6,865	6,989	6,116	5,670	6,231	7040
<b>D&amp;A Exp.</b>	142	144	134	134	107	210	259	299	187	---
<b>Net Profit</b>	471	452	352	649	475	530	897	732	1,995	898
<b>Net Margin</b>	9.2%	7.9%	5.7%	10.0%	6.9%	7.6%	14.7%	12.9%	32.0%	12.8%
<b>Free Cash Flow</b>	760	1,231	1,353	1,150	1,804	2,083	2,456	2,183	1,714	---
<b>Income Tax</b>	236	220	195	119	247	122	143	25	254	225

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	42,087	47,535	49,837	55,072	60,658	63,456	70,130	73,710	28,931	28831
<b>Cash &amp; Equivalents</b>	1,639	1,343	1,220	2,107	2,338	1,515	2,314	1,665	2,131	872
<b>Acc. Receivable</b>	3,896	4,127	3,573	3,734	4,515	4,583	4,750	4,517	4,784	5316
<b>Goodwill &amp; Int.</b>	185	201	199	199	199	207	207	176	246	246
<b>Total Liabilities</b>	37,318	42,481	45,067	50,153	55,327	58,484	63,861	66,921	23,919	24779
<b>Accounts Payable</b>	2,630	2,872	2,792	2,936	3,700	3,694	3,838	3,924	4,339	1035
<b>Long-Term Debt</b>	913	1,061	998	1,283	1,301	1,302	1,473	1,963	1,964	1496
<b>Total Equity</b>	4,599	4,879	4,592	4,916	5,330	4,970	6,269	6,789	5,012	4052
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.2%	1.0%	0.7%	1.2%	0.8%	0.9%	1.3%	1.0%	3.9%	3.1%
<b>Return on Equity</b>	10.3%	9.5%	7.4%	13.7%	9.3%	10.3%	16.0%	11.2%	33.8%	19.8%
<b>ROIC</b>	8.3%	7.7%	5.9%	10.8%	7.4%	8.2%	12.8%	8.9%	25.4%	14.3%
<b>Shares Out.</b>	89	87	87	87	88	89	90	86	85	85.3
<b>Revenue/Share</b>	55.95	63.00	68.74	73.42	76.45	77.14	67.21	63.57	72.79	82.53
<b>FCF/Share</b>	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.

### Disclaimer

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