



Allstate Corporation (ALL)

February 9th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$162	5 Year CAGR Estimate:	7.6%	Market Cap:	\$42 B
Fair Value Price:	\$132	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	02/27/2024
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date²:	04/03/2024
Dividend Yield:	2.2%	5 Year Price Target	\$213	Years of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Allstate Corporation is an insurance company that offers property and casualty insurance to its customers. The company also sells life, accident, and health insurance products. Its segments include Allstate Protection, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, etc. Allstate's insurance brands include Allstate, Encompass, and Esurance. Allstate Corporation was founded in 1931 and the company is headquartered in Northbrook, IL. Allstate is currently trading with a market capitalization of \$42 billion.

Allstate Corporation reported fourth quarter 2023 results on February 7th, 2024, for the period ending December 31st, 2023. The company reported consolidated revenues of \$14.8 billion for the quarter, an 8.7% year-over-year increase. Property-Liability insurance premiums earned totaled \$12.6 billion, up 10.7% from \$11.4 billion in the same period a year ago. Adjusted net income per share of \$5.82 was a favorable improvement from (\$1.33) a year ago. Catastrophe losses amounted to just \$68 million in the quarter, 91% lower than the same quarter last year due to better weather.

Total policies in force increased slightly year-over-year, from 189.1 million to 192.8 million, a 2.0% increase. The trailing twelve months adjusted net income return on common shareholder's equity was 1.5%, 2.7 points higher than last year's (1.2)%. Book value per share rose by 2.2% year-over-year to \$59.39.

Allstate is pursuing the sale of its Health and Benefits business, targeting to complete the sale in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.42	\$5.21	\$4.89	\$6.71	\$8.86	\$10.43	\$14.29	\$13.48	(\$0.88)	\$0.95	\$12.00	\$19.33
DPS	\$1.12	\$1.18	\$1.29	\$1.45	\$1.84	\$2.00	\$2.16	\$3.24	\$3.40	\$3.52	\$3.56	\$4.54
Shares³	418.0	381.0	366.0	355.0	342.0	326.0	314.0	280.6	263.5	262.5	261.0	240.0

Allstate's profits took a large hit during the last financial crisis. Earnings once peaked in 2006 at \$7.67 and continued to drop for several years before bottoming out in 2011, more than 80% below the peak that was hit five years earlier. Since then, profits have recovered, though, and have risen to new record highs since 2018, and through to 2020. 2021 fell just short of its 2020 high, while 2022 results were gruesome due to increased claims severity and unfavorable prior year reserve reestimates, lower net investment income and policies in force, and higher costs and expenses. For 2023, catastrophe losses rose 81% compared to 2022 to \$5.6 billion, heavily impacting profit. In 2024, we expect normalized results of \$12.00 per share, and forecast Allstate can produce 10% annualized earnings-per-share growth to generate \$19.33 in 2029.

The insurance industry is not a high-growth industry, nevertheless, Allstate has managed to grow earnings successfully over the long term, with ebbs and flows over certain time periods. The company benefits from rising interest rates, as this allows it to deploy its insurance float more profitably. Allstate has successfully reduced its share count throughout the last decade, and it is likely that share repurchases will remain a key factor for earnings-per-share growth going

¹ Estimate based on last year's date

² Estimate based on last year's date

³ 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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forward as well. In the last 12 months, the company reduced its common shares outstanding by 0.4%. We would consider Allstate to be a shareholder-friendly company. However, due to underwriting losses that Allstate has been subject to recently, its \$5 billion share repurchase authorization was suspended in July 2023.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11	12.6	13.8	13.1	10.3	13.5	7.5	9.2	-	126	13.5	11.0
Avg. Yld.	1.9%	1.8%	1.9%	1.6%	2.2%	1.9%	2.1%	2.2%	2.5%	2.9%	2.2%	2.1%

Allstate Corporation trades at 13.5 times this year’s earnings-per-share forecast. This is above the 10-year average PE of 10.1 (when excluding outliers for 2022 and 2023). We believe that shares are overvalued here, which implies a valuation headwind. Allstate’s dividend yield is above that of the broad market at 2.2% and is in line with its average historical yield of 2.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

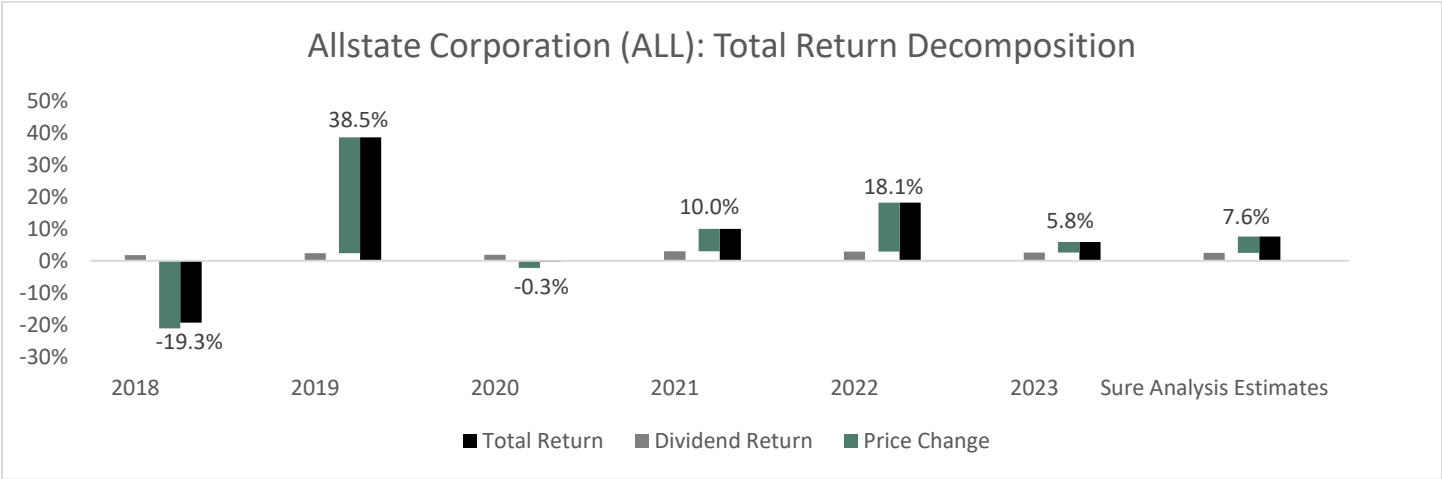
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	23%	26%	22%	21%	19%	15%	24%	-	371%	30%	24%

Allstate saw its profits shrink considerably during the last financial crisis, which is why the company cut its dividend during those troubled times. The dividend was cut from 2008 to 2009 as well as from 2009 to 2010. The dividend payout ratio is quite low, though, and results are expected to normalize from here. The risk of another dividend cut during the next couple of years is relatively low, even with the underperformance we saw in 2022 and 2023. Allstate does not have strong recession performance; its profits declined massively, and it took the company until 2018 to breach its earnings-per-share record that the company set in 2006. Allstate is thus not a resilient investment. It is highly reliant on auto insurance, which is responsible for more than 50% of revenues. Shifts towards more autonomous driving or ride sharing could thus turn into a headwind in the distant future.

Final Thoughts & Recommendation

Allstate is one of the largest American insurers and a very shareholder-friendly company. We are forecasting total annualized returns of 7.6% in the intermediate term, and the stock is trading above our estimate of fair value. As a result of this overvaluation, Allstate earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	35,239	35,653	37,399	39,407	39,815	44,675	44,791	50,588	51,412	57,090
SG&A Exp.				-217	468	114	-51	-644	116	9
D&A Exp.	366	371	382	483	511	647	686			
Net Profit	2,850	2,171	1,877	3,554	2,160	4,847	5,576	1,599	-1,311	-188
Net Margin	8.1%	6.1%	5.0%	9.0%	5.4%	10.8%	12.4%	3.2%	-2.5%	-0.3%
Free Cash Flow	2,948	3,313	3,680	4,015	4,898	4,696	5,183			
Income Tax	1,386	1,111	877	995	468	1,242	1,383	1,289	-494	-135

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	108,479	104,656	108,610	112,422	112,249	119,950	125,987	99,440	97,957	103,360
Cash & Equivalents	657	495	436	617	499	338	377	763	736	722
Acc. Receivable	13,955	14,062	14,342	14,707	15,719	15,683	15,699	18,388	18,771	18,850
Goodwill & Int.	1,219	1,219	1,219	2,737	3,243	3,026	2,997	3,502	3,502	3,502
Total Liab. (\$B)	86,175	84,631	88,037	89,871	90,937	93,952	95,770	74,313	80,607	85,730
Long-Term Debt	5,140	5,124	6,347	6,350	6,451	6,631	7,825	7,976	7,964	7,942
Total Equity	20,558	18,279	18,827	20,805	19,382	23,750	28,247	23,209	15,505	15,770
LTD/E Ratio	0.23	0.26	0.31	0.28	0.30	0.26	0.26	0.32	0.46	0.45

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.5%	2.0%	1.8%	3.2%	1.9%	4.2%	4.5%	1.4%	-1.3%	-0.2%
Return on Equity	13.8%	11.2%	10.1%	17.9%	10.7%	22.5%	21.4%	6.2%	-6.8%	-1.1%
ROIC	10.3%	8.3%	7.2%	12.7%	7.6%	16.1%	15.8%	4.5%	-4.5%	-0.7%
Shares Out.	418.0	381.0	366.0	355.0	342.0	326.0	314.0	280.6	271.2	262.5
Revenue/Share	80.42	87.64	99.12	107.14	112.73	133.96	141.97	169.13	189.57	217.50
FCF/Share	6.73	8.14	9.75	10.92	13.87	14.08	16.43			

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