CNA Financial Corp. (CNA)

Updated February 5th, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$12.5 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/16/24
Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	03/07/24
Dividend Yield:	3.8%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Founded in 1897 and headquartered in Chicago, IL, CNA Financial is one of the largest U.S. Commercial Property and Casualty insurance companies. The company operates under five segments: Specialty, Commercial, International, Life & Group and Corporate & Other – offering property and casualty coverage, life, accident and health insurance and retirement products and annuities. Loews Corporation (L) owns approximately 89% of CNA's shares. Last year the $12.5 billion market cap company served over 1 million businesses and professionals and generated $1.2 billion in profit.

On February 5th, 2023, CNA increased its base dividend by 4.8% to a quarterly rate of $0.44

On the same day, CNA reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, the company posted core income, which excludes investment gains or losses, of $362 million or $1.33 per share compared to $265 million or $0.97 per share last year. Higher profitability was driven by higher investment income, record-high pretax underlying underwriting income, and lower catastrophe losses. For the year, core income per share came in at $4.71.

The underlying combined ratio, which divides the sum of claim-related losses and business expenses by premiums earned, came in at 91.4%, up from 91.2% in the prior-year quarter. Adjusted book value per share equaled $46.39, 10% higher from year-end-2022 if adjusted for $2.88 of total dividends per share (four quarterly dividends of $0.42 and a special dividend of $1.20). For fiscal 2024, we expect core earnings per share of about $5.00.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.14	$1.90	$3.05	$3.38	$3.11	$3.59	$2.70	$4.06	$3.84	$4.71	***$5.00***	***$5.80***
DPS	$1.00	$1.00	$1.00	$1.10	$1.30	$1.40	$1.48	$1.52	$1.60	$1.68	***$1.76***	***$2.04***
Shares[1]	270	270	271	271	272	271	271	271	271	271	***271***	***270***

Note that we are using core earnings, as we believe this better reflects the long-term earnings power of the company. CNA has put together a volatile but positive business record over the last decade. This is to be expected from an insurer, as premiums tend to be consistent, but claims will vary dramatically. From 2013 through 2022, it appears that CNA has failed to grow its core earnings-per-share, but this was due to a relatively tough environment that year. We believe that earnings will continue to rebound this year.

And, while CNA's history may not have set a strong precedent for growth, we are of the opinion that a slow and steady approach is warranted in this industry. Insurers do not know their liabilities for many years, and it can be easy to underprice policies to chase growth. This was especially relevant during the past couple of years, given the COVID-19 pandemic and the uncertainties (still) surrounding future equity gyrations and insurance-related losses, especially those pertaining to weather.

[1] In millions.

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We believe CNA could generate growth over the intermediate term via ongoing policy price increases, a combined ratio that continues to improve, and higher interest rates over the long term, which would help the fixed maturity holdings. We are estimating earnings-per-share to reach $5.00 in 2024, and we are assuming a 3% intermediate-term growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.7	20.2	11	14.1	15.4	12.7	12.9	10.7	11.7	8.2	***9.3***	***9.0***
Avg. Yld.	2.50%	2.60%	3.00%	2.30%	2.70%	3.10%	4.20%	3.50%	3.60%	4.30%	***3.8%***	***3.9%***

Over the past decade, shares of CNA have traded hands with an average multiple of 13 times earnings. We believe 9 times earnings is a reasonable starting place, given the volatile results of the business and relatively low growth expectation compared to other companies in the industry. With shares currently trading at 9.3 times our EPS estimate, we believe that CNA is slightly overvalued. Note that while CNA has paid a notable special dividend every year since 2014, we have not included this in our forecasts. With respect to 2023, the special dividend amounts to $2.00 and will be paid along with the $0.44 common one in March. As such, this component could very well be understated in our dividend and total return estimates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	53%	33%	33%	42%	39%	55%	37%	42%	36%	***35%***	***35%***

While CNA's business results have been markedly positive during the last decade, we do not believe the firm has a material competitive advantage given that insurance products are commodity-like in nature.

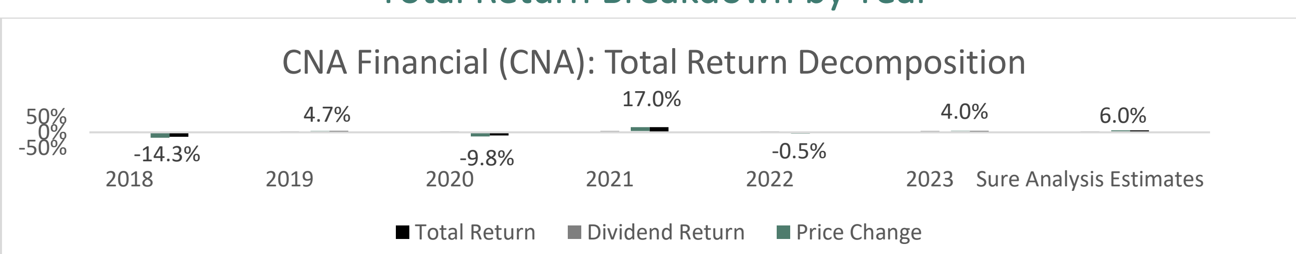
CNA is not necessarily beholden to economic conditions as much as it is to the timing of insurance related losses. That being said, many of the company's customers are sensitive to recessions, which will put pressure on the company in lesser times. During the Great Recession, CNA posted earnings-per-share of $3.90, $1.91, $3.42, $2.20, and $2.28 during the 2007 through 2011 stretch. Moreover, the dividend was cut from $0.45 to zero during 2009 and 2010, before being reinstated at $0.40 in 2011. This is a cautionary tale for what could happen during the next downturn.

Today the company appears to be in reasonable financial shape, with A+ and A2 ratings from S&P and Moody's. Moreover, we are encouraged by the annual special dividend as this shows both a penchant for returning capital to shareholders and flexibility if the firm needs it in the future.

Final Thoughts & Recommendation

CNA Financial has put up a volatile record over the past decade and has overall failed to achieve significant growth. Still, we expect an improvement in results this year and are generally encouraged by the capital allocation decisions being made. We are projecting a 6.0% annual total return potential, stemming from 3% growth and a 4.3% starting dividend yield, partially offset by soft valuation headwinds. Our projection doesn't reflect the annual special dividends, which would boost total returns meaningfully. Shares earn a hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	$9,932	$9,692	$9,101	$9,366	$9,542	$10,134	$10,767	$10,690	$11,510	$11880
D&A Exp.	$101	$83	$84	$77	$88	$79	$68	$60	$54	$51
Net Profit	$937	$691	$479	$859	$899	$813	$1,000	$690	$1,202	$894
Net Margin	9.4%	7.1%	5.3%	9.2%	9.4%	8.0%	9.3%	6.5%	10.4%	7.5%
Free Cash Flow	$1,113	$1,369	$1,262	$1,270	$1,152	$1,128	$1,114	$1,752	$1,971	$2450
Income Tax	$361	$319	$70	$278	$411	$151	$223	$131	$282	$187

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	$57,194	$55,566	$55,045	$55,233	$56,567	$57,152	$60,612	$64,030	$66,640	$60,930
Cash & Equiv.	$195	$190	$387	$271	$355	$310	$242	$419	$536	$475
Accounts Rec.	$7,996	$6,630	$6,531	$6,625	$6,553	$6,749	$6,628	$7,064	$8,408	$8,574
Goodwill & Int.	$248	$237	$231	$214	$220	$214	$216	$217	$215	$215
Total Liabilities	$44,543	$42,772	$43,289	$43,264	$44,323	$45,935	$48,397	$51,320	$53,830	$52,100
LT Debt	$2,560	$2,559	$2,560	$2,710	$2,858	$2,680	$2,679	$2,776	$2,779	$2,781
Book Value	$12,651	$12,794	$11,756	$11,969	$12,244	$11,217	$12,215	$12,710	$12,810	$8,825
LTD/E Ratio	0.20	0.20	0.22	0.23	0.23	0.24	0.22	0.22	0.22	0.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.2%	0.9%	1.6%	1.6%	1.4%	1.7%	1.1%	1.8%	1.4%
Return on Equity	7.5%	5.4%	3.9%	7.2%	7.4%	6.9%	8.5%	5.5%	9.4%	8.3%
ROIC	6.2%	4.5%	3.2%	5.9%	6.0%	5.6%	6.9%	4.5%	7.7%	6.6%
Shares Out.	270.2	270.6	270.7	271.1	272.1	272.5	272.5	272.4	272.8	275.5
Revenue/Share	$36.76	$35.82	$33.62	$34.55	$35.07	$37.19	$39.51	$39.23	$42.18	$43.59
FCF/Share	$4.12	$5.06	$4.66	$4.68	$4.23	$4.14	$4.09	$6.43	$7.23	$9.00

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