



The Hanover Insurance Group, Inc. (THG)

Updated November 2nd, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$148	5 Year CAGR Estimate:	12.3%	Market Cap:	\$5.2 B
Fair Value Price:	\$165	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/13/24
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date¹:	12/27/24
Dividend Yield:	2.3%	5 Year Price Target	\$242	Years Of Dividend Growth:	19
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

The Hanover Insurance Group, Inc. (THG) is a holding company whose primary business is offering property and casualty insurance products and services. The company markets itself through independent agents and brokers in the United States. In 2023, Personal Lines accounted for approximately 42% of segmented revenues; Commercial Lines, 36%; Other Property & Casualty, 22%. The company operates an investment portfolio that is primarily exposed to fixed-income securities. The Hanover Insurance Group, Inc. was founded in 1852 and is headquartered in Worcester, Massachusetts.

On October 30th, 2024, The Hanover Insurance Group reported its financial results for the third quarter for the period ending September 30th, 2024. The company announced net income of \$102.1 million, or \$2.80 per diluted share, a significant improvement from \$8.6 million, or \$0.24 per diluted share, in the same period the previous year. Operating income for the quarter was \$111.3 million, or \$3.05 per diluted share, compared to an operating income of \$6.8 million, or \$0.19 per diluted share, in the prior-year quarter.

The combined ratio for the third quarter, excluding catastrophes, was 88.3%, reflecting continued effective pricing and margin recapture initiatives across its three segments. This improvement was driven by strong underwriting discipline, with the Specialty and Core Commercial segments showing renewal price increases of 10.1% and 12.9%, respectively. Net investment income rose by 9.0% to \$91.8 million, supported by higher bond reinvestment yields despite lower partnership income compared to the same quarter last year. The overall combined ratio stood at 95.5%, showing a significant reduction in catastrophe losses compared to the previous year. Net premiums written grew by 4.2% to \$1.66 billion, with stable performance across all segments. Notably, renewal price increases in Personal Lines reached 15.4%, driven by disciplined growth and strategic pricing adjustments. Moreover, book value per share increased to \$79.90, up 12.6% from June 30, 2024, largely due to unrealized gains on the fixed maturity portfolio and strong earnings in the quarter. The company remains confident in maintaining strong underwriting margins and continues to target a long-term return on equity of 14% or higher, supported by its strong performance and strategic pricing increases across its major segments. Furthermore, the company expects the current interest rate environment to continue to provide an accumulating benefit of higher investment yields.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS²	\$5.18	\$6.26	\$4.27	\$4.75	\$6.79	\$8.16	\$9.32	\$8.73	\$5.53	\$1.56	\$11.00	\$16.16
DPS	\$1.52	\$1.69	\$1.88	\$2.04	\$2.22	\$2.45	\$2.65	\$2.85	\$3.06	\$3.24	\$3.40	\$5.00
Shares³	44	43	42	43	42	38	36	36	36	36	36	36

The Hanover Insurance Group long-term earnings growth track record shows instability, with the company's earnings-per-share having dropped in the fiscal years 2016 and 2022. We expect Hanover Insurance recover from the 2022 & 2023 EPS dip and grow its earnings-per-share by 8% per year on average over the next five years, mainly driven by premium growth, assisted by optimizing costs, recording greater gains on its fixed-income investment positions. This

¹ Estimated Date.

² Based on operating income

³ In millions.

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growth rate is more conservative compared to the company’s expectations for double-digit growth for the next five years. The company has taken decisive action in response to elevated catastrophe loss trends, which we believe is essential to return to the target profitability objectives. Hanover Insurance has a long history of paying dividends and has 19 consecutive years of annual dividend increases. In December 2023, the board increased the quarterly dividend by 4.9% from \$0.81 to \$0.85. Over the last five years, the average annual growth rate is 6.8%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.0	12.2	19.4	19.7	17.2	15.4	11.5	13.2	15.0	13.3	13.4	15.0
Avg. Yld.	1.9%	2.2%	2.3%	2.2%	1.9%	1.5%	2.5%	2.2%	2.3%	2.9%	2.3%	2.1%

The last few years Hanover Insurance’s valuation has declined from the peak level (19.7) that it reached during 2017. During COVID, its share price declined to around \$83 before climbing back to \$150 levels in April 2022. During the past decade shares of Hanover Insurance have traded with an average price-to-earnings ratio of about 15 times earnings. We are using 15 times earnings also as a fair value baseline, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

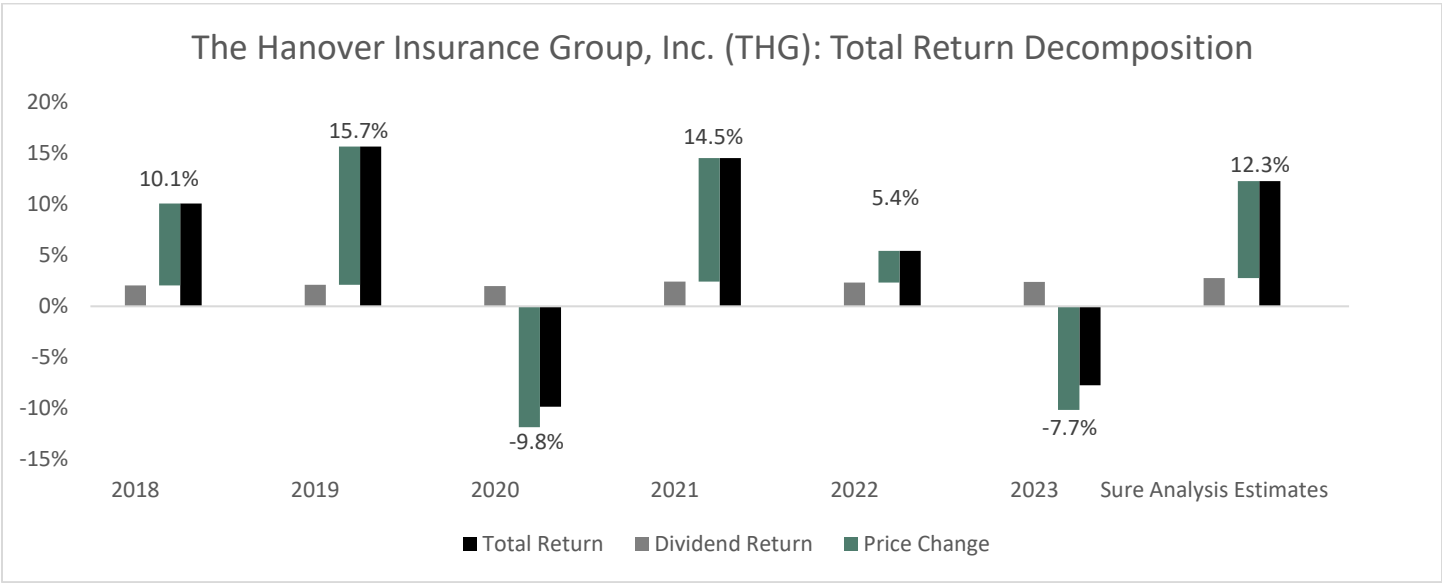
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	27%	44%	43%	33%	30%	28%	33%	55%	208%	31%	31%

During the past five years the company’s dividend payout ratio has averaged around 70%. With the current payout ratio of 38%, THG’s dividend payments are just covered by earnings and is something to monitor. The Hanover Insurance Group is a diversified and solid insurer with a differentiated P&C franchise in a fragmented market. With their differentiating strategy, such as specialized products and distinctive agency partnerships, the company can strengthen its competitive advantages. Furthermore, Hanover Insurance has a S&P and AM Best “A”-rating and a stable outlook. However, the insurance industry is subject to fluctuations and volatility due to various factors, including weather events, regulatory changes, and economic conditions.

Final Thoughts & Recommendation

The Hanover Insurance Group has a healthy balance sheet and ambitious financial targets for the next five years. The expected total returns for the shares are 12.3% per year, driven by 8% projected earnings growth, a 2.3% dividend yield, and a valuation tailwind. The company earns a buy rating based on the projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,068	5,034	4,054	4,268	4,494	4,891	4,827	5,228	5,469	5,964
D&A Exp.	34	30	31	30	25	22	18	---	13	6
Net Profit	282	332	155	186	391	425	359	419	116	35
Net Margin	5.6%	6.6%	3.8%	4.4%	8.7%	8.7%	7.4%	8.0%	2.1%	0.6%
Free Cash Flow	554	425	728	686	538	590	693	---	705	350
Income Tax	96	109	(1)	77	44	93	83	101	27	7.6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,760	13,781	14,220	15,470	12,400	12,491	13,444	14,254	14,000	14,610
Cash & Equivalents	373	339	283	298	1,021	216	121	231	305	316
Acc. Receivable	3,629	4,027	4,050	2,721	2,825	3,074	3,214	3,377	3,566	3,762
Goodwill & Int.	185	186	185	179	179	179	179	---	179	179
Total Liabilities	10,916	10,937	11,363	12,472	9,445	9,574	10,242	11,109	11,670	12,150
Accounts Payable	227	205	252	52	37	53	48	---	70	64
Long-Term Debt	904	803	786	787	778	653	781	782	782	783
Total Equity	2,844	2,844	2,858	2,998	2,955	2,916	3,202	3,145	2,326	2,466
LTD/E Ratio	0.32	0.28	0.28	0.26	0.26	0.22	0.24	0.25	782	0.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.1%	2.4%	1.1%	1.3%	2.8%	3.4%	2.8%	3.0%	0.8%	0.3%
Return on Equity	10.4%	11.7%	5.4%	6.4%	13.1%	14.5%	11.7%	13.2%	4.2%	1.5%
ROIC	7.8%	9.0%	4.3%	5.0%	10.4%	11.6%	9.5%	10.6%	3.3%	1.1%
Shares Out.	44	43	42	43	42	38	36	36	36	36
Revenue/Share	112.86	112.37	93.84	99.25	104.52	120.46	126.70	143.62	151.48	165.19
FCF/Share	12.33	9.49	16.84	15.95	12.52	14.52	18.18	---	19.52	9.69

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

Disclaimer

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