

The Allstate Corp. (ALL)

\$124.67 (As of 02/05/20)

Price Target (6-12 Months): **\$131.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Allstate Corporation's earnings of \$3.13 per share beat the Zacks Consensus Estimate by 0.32% and were up 152.4% year over year, led by increase in premiums and policies in force. Shares of Allstate Corporation have outperformed the industry in a year's time. The company is poised to grow on the back of its solid property and liability segment. A number of initiatives undertaken by it to improve profitability in its auto segment are now driving growth. A strong balance sheet and intelligent capital management are other positives. Some acquisitions made recently should provide diversification benefits and aid its inorganic growth. Increasing net investment income is another positive. Its growing service business provides diversified revenue stream. However, it is exposed to catastrophe losses. Escalating expenses might weigh on margins.

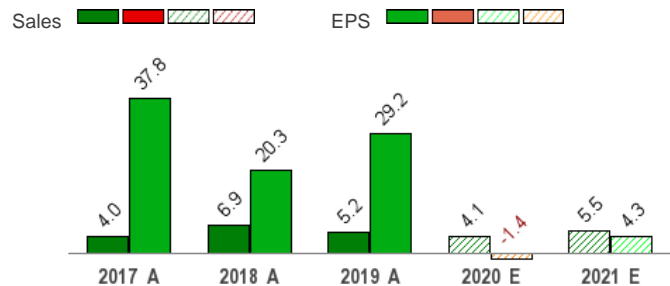
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.94 - \$90.00
20 Day Average Volume (sh)	1,572,169
Market Cap	\$40.4 B
YTD Price Change	10.9%
Beta	0.81
Dividend / Div Yld	\$2.00 / 1.6%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 40% (102 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	05/06/2020
Earnings ESP	4.1%
P/E TTM	11.9
P/E F1	12.1
PEG F1	1.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,508 E	11,659 E	11,834 E	12,011 E	47,012 E
2020	10,906 E	11,047 E	11,211 E	11,376 E	44,541 E
2019	10,328 A	10,820 A	10,872 A	10,770 A	42,790 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.13 E	\$2.46 E	\$2.30 E	\$3.17 E	\$10.72 E
2020	\$2.87 E	\$2.08 E	\$2.29 E	\$2.99 E	\$10.28 E
2019	\$2.30 A	\$2.18 A	\$2.84 A	\$3.13 A	\$10.43 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

Overview

Founded in 1931 and headquartered in Northbrook, Illinois, The Allstate Corporation is the third-largest property-casualty (P&C) insurer and the largest publicly-held personal lines carrier in the U.S. The company also provides a range of life insurance and investment products to its diverse customer base. It provides insurance products to approximately 16 million households through more than 12,000 exclusive agencies and financial specialists in the U.S. and Canada.

In total, Allstate had 113.9 million policies in force as of Dec 31, 2018.

The company reports through seven segments:

Allstate Protection (86% of the company's revenue in 2018) includes the Allstate, Encompass, and Ensurance brands and Answer Financial. It offers passenger auto, homeowners, other personal lines, and commercial insurance through agencies and direct, including contact centers and the internet.

Service Businesses (3%) which includes SquareTrade, Arity, InfoArmor, Allstate Roadside Services and Allstate Dealer Services, offers a broad range of products and services that expand and enhance customer value propositions.

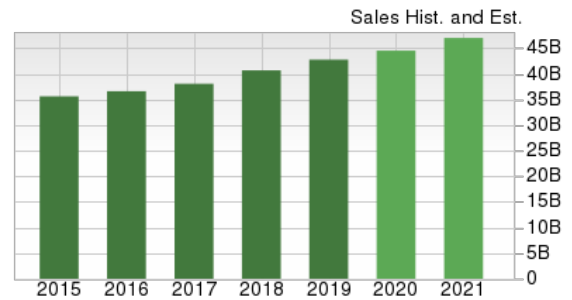
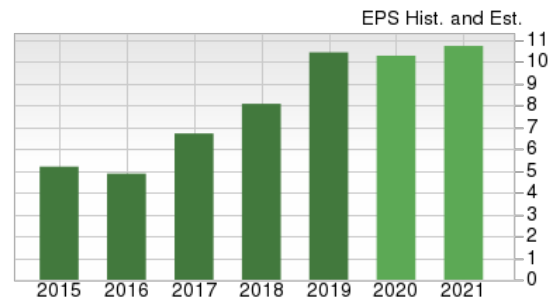
Allstate Life (4%) offers traditional, interest-sensitive and variable life insurance products through Allstate exclusive agencies and exclusive financial specialists.

Allstate Benefits (3%) offers voluntary benefits products including life, critical illness, accident, short-term disability and other health-insurance products.

Allstate Annuities (3%) consists of deferred fixed annuities and immediate fixed annuities in run-off.

Discontinued Lines and Coverages and Corporate and Other (1%) relates to property and casualty insurance policies written during the 1960's through the mid-1980's with exposure to asbestos, environmental and other claims in run-off.

The company's principal geographic markets are in the U.S. Through various subsidiaries, it is authorized to sell a variety of personal property and casualty products in all 50 states, D.C., Puerto Rico and Canada. The top U.S. geographic markets are Texas, California, New York, Florida with premium earned of 12.1%, 10.3%, 8.7% and 6.8%, respectively, in 2018 with the other states



Reasons To Buy:

- ▲ **Share Price Outperformance:** The stock has outperformed its industry, in a year's time. The company's strong performance should favor its stock in the coming quarters.
- ▲ **Rising Revenues:** The company's top line has been increasing over the years owing to its broad product suite and pricing discipline. It is also benefiting from past acquisitions and growth in emerging businesses, evident from a consistent increase in premium written over the years. The trend continued in 2019 with revenues up 6% year over year. We expect revenue growth to continue, given a number of strategic initiatives taken, such as product enhancements and changes in business mix to focus on those that command a high return on equity.
- ▲ **Growing Service Business:** The company is making concerted efforts to expand its Service business, which provides diversification benefits. In this vein, the company acquired SquareTrade in 2017, a provider of protection plans for mobile phones, consumer electronics and appliances. The company also acquired PlumChoice in 2018, a leading provider of cloud and technical support services to consumers and small businesses. In February 2019, iCracked was acquired, which expanded SquareTrade's protection offerings. These buyouts will expand its Service business, which grew revenues by 7.3% in 2019.
- ▲ **Increasing Investment Income:** After suffering from declining income in its investment portfolio for the past many years due to market volatility and low interest rates, the company is gradually gaining ground. Net investment income rose 11.8% in 2017 and 6.3% in 2018. Though it was down by 2.5% in 2019, the company has lowered its exposure in growth-sensitive assets, which is likely to improve its investment portfolio's risk profile and aid growth in net investment income.
- ▲ **Improvement in Financial Leverage:** The company's debt-to-equity ratio has declined to 25.5% as of Dec 31, 2019 from 30.3% as of Dec 31, 2018. Times interest earned, a ratio that measures the company's ability to pay its interest expenses is 19.62X, better than the industry average of 9.93X. A decline in leverage strengthens the company's balance sheet and reduces financial risk.
- ▲ **Strong Balance Sheet and Efficient Capital Management:** The company's cash flow has been increasing over the years. Management's proactive risk mitigation and return optimization programs continue to enhance operating cash flow and shareholder value. Disciplined capital management by way of share buyback and dividend hike is also impressive. In October 2018, the company announced \$3 billion of share buyback. In May 2019, Allstate increased its quarterly dividend by 8.7%. Its current dividend yield of 1.6% is considerably higher than the industry's 0.4%. We believe the company's financial strength will continue to inspire investors' confidence in the stock.
- ▲ **Strong ROE:** Further, Allstate's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's ROE of 16.1%, though has declined over the past two years, remains way above the industry's ROE of 7%, reflecting its tactical efficiency in using its shareholders' funds.

Growing revenues, improving investment income, solid balance sheet with efficient capital management are expected to drive long term growth.

Reasons To Sell:

- ▼ **Exposure to Catastrophe Losses:** Due to a relatively large property insurance business, Allstate is significantly exposed to catastrophic events. Weather-related losses over the years have weighed on the company's claims and benefits, expenses, and cash flow, draining its underwriting profitability. In 2019, the company incurred catastrophe losses of \$2.6 billion, down 10.3% year over year. Though it remains focused on reducing losses through its catastrophe management strategy and reinsurance programs, and limiting exposure to riskier geographic markets by raising premiums, it would lead to a decline in the number of policies in force.
- ▼ **Increasing Cost:** The company has been witnessing an increase in total cost and expenses over the years. The same was up 3.8% in 2019, and we expect an increase in operating cost going forward (which will compress margins) as the company continues with investments.
- ▼ **Overvalued:** The stock is trading at the current price-to-book value of 1.75X which is higher than the industry's P/B ratio of 1.42. This makes the stock look expensive at the current levels.

Exposure to catastrophe, increase in operating costs are some of the headwinds faced by company.

Last Earnings Report

Allstate Beats Earnings and Revenue Estimates in Q4

Allstate Corporation's fourth-quarter 2019 earnings of \$3.13 per share beat the Zacks Consensus Estimate by 0.32% and were up 152.4% year over year, led by increase in premiums and policies in force.

Revenues of \$11.5 billion outpaced the Zacks Consensus Estimate by 6.5%. The top line was up 21% year over year, driven by an increase in premiums.

Total expenses declined 9.3% year over year to \$9.2 billion, driven by lower property and casualty insurance claims.

The company incurred catastrophe loss of \$295 million, down 69.4% year over year.

Total policies in force as of Dec 31, 2019 were 145.9 million, up 27.7% year over year.

Net investment income of \$689 million decreased 12.3% year over year.

Solid Segmental Performance

Property-Liability insurance premiums of \$8.7 billion increased 4.4% year over year driven by policy growth and higher average premiums in the Allstate and Esurance brands. The segment's underwriting income of \$1000 million was up from \$286 million in the year-ago quarter.

Service Business' revenues were \$434 million, up 21.9% year over year. This upside was primarily driven by higher contribution from the company's Protection Plans, Dealer Services and Arity business, partly offset by decline in premium from Roadside Services.

Allstate Life, Benefits and Annuities total premium and contract charges were \$627 million, unchanged year over year, due to slightly higher contribution from Life and Benefits business, partly offset by decline in Annuities premium and contract charges.

Capital Position (as of Dec 31, 2019)

Total shareholders' equity was \$26 billion, up 22.1% year over year.

Total assets were \$120 billion, up 6.9% year over year.

The company's financial leverage position improved with a 480 basis point reduction in debt-to-equity ratio to 25.5%.

Adjusted return on equity of 16.9% was up 70 basis point year over year.

Adjusted book value per share was \$67.29, up 17% year over year.

Share Buyback and Dividend Buyback

In 2019, the company returned \$653 million to common shareholders in common stock dividends. It completed a \$3 billion share repurchase program in January 2020.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	-0.03%
EPS Surprise	0.32%
Quarterly EPS	3.13
Annual EPS (TTM)	10.45

Recent News

Allstate Announces December 2019 Catastrophe Losses and Fourth Quarter Charges – Jan 16, 2020

The company has announced estimated catastrophe losses for the month of December of \$25 million, pre-tax (\$20 million, after-tax), bringing estimated catastrophe losses for the fourth quarter 2019 to \$295 million, pre-tax (\$233 million, after-tax).

Allstate Provides November 2019 Catastrophe Loss Estimates – Dec 19, 2019

Allstate estimates pre-tax catastrophe loss of \$33 million or \$26 million after-tax for the month of November. The losses consist of four events whose estimated cost is \$19 million, pre-tax along with unfavorable prior period reserve re-estimates primarily from 2019 events.

Allstate Declares The Transformative Growth Plan – Dec 19, 2019

Allstate declared the Transformative Growth Plan to boost its personal property-liability business with the use of Allstate brand, people and technology.

Valuation

Allstate's shares are up 35% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector is up 14.1% and 10.5%, respectively.

The S&P 500 index is up 22.1% in the past year.

The stock is currently trading at 1.75X trailing 12-month price to book, which compares to 1.44X for the Zacks sub-industry, 2.84X for the Zacks sector and 4.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.86X and as low as 1.19X, with a 5-year median of 1.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$131 price target reflects 1.83X price to book.

The table below shows summary valuation data for ALL

Valuation Multiples - ALL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.75	1.44	2.84	4.55
	5-Year High	1.86	1.67	2.89	4.55
	5-Year Low	1.19	1.25	1.83	2.85
	5-Year Median	1.51	1.48	2.51	3.61
P/S F12M	Current	0.9	1.67	6.53	3.54
	5-Year High	1.12	11.26	6.61	3.54
	5-Year Low	0.68	1.56	5.39	2.55
	5-Year Median	0.88	1.92	6.04	3
P/E F 12M	Current	12.07	26.97	14.92	19.09
	5-Year High	17.51	31.55	16.21	19.34
	5-Year Low	8.42	22.77	12.03	15.17
	5-Year Median	11.51	25.79	14.07	17.44

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 255)



Top Peers

W.R. Berkley Corporation (WRB)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
Axis Capital Holdings Limited (AXS)	Neutral
Berkshire Hathaway Inc. (BRK.B)	Neutral
Chubb Limited (CB)	Neutral
Hallmark Financial Services, Inc. (HALL)	Neutral
The Progressive Corporation (PGR)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	ALL Neutral	X Industry	S&P 500	AFG Neutral	AXS Neutral	WRB Outperform
VGM Score	A	-	-	A	B	C
Market Cap	40.39 B	1.75 B	24.26 B	10.13 B	5.52 B	13.99 B
# of Analysts	9	2	13	4	3	5
Dividend Yield	1.60%	1.00%	1.75%	1.60%	2.49%	0.58%
Value Score	B	-	-	A	C	D
Cash/Price	0.15	0.18	0.04	0.29	0.22	0.11
EV/EBITDA	12.33	9.60	14.19	9.60	23.31	13.52
PEG Ratio	1.46	1.74	2.04	1.93	2.57	2.82
Price/Book (P/B)	1.70	1.23	3.31	1.60	1.15	2.29
Price/Cash Flow (P/CF)	10.71	14.48	13.70	10.32	13.39	21.63
P/E (F1)	12.13	14.50	19.17	12.48	12.83	25.40
Price/Sales (P/S)	0.90	1.07	2.67	1.23	1.07	1.77
Earnings Yield	8.25%	6.81%	5.22%	8.01%	7.80%	3.94%
Debt/Equity	0.28	0.21	0.71	0.23	0.33	0.38
Cash Flow (\$/share)	11.64	3.05	6.92	10.88	4.91	3.52
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	13.91%	-0.55%	10.80%	13.41%	-22.01%	6.66%
Proj. EPS Growth (F1/F0)	-1.47%	12.38%	7.35%	4.41%	103.57%	-0.99%
Curr. Cash Flow Growth	12.20%	9.94%	10.12%	39.71%	-541.78%	50.32%
Hist. Cash Flow Growth (3-5 yrs)	1.93%	7.23%	8.55%	13.00%	-13.32%	3.89%
Current Ratio	0.28	0.44	1.20	0.16	0.55	0.36
Debt/Capital	20.32%	18.09%	42.91%	18.38%	22.20%	27.75%
Net Margin	10.85%	5.43%	11.79%	10.89%	6.25%	8.63%
Return on Equity	16.05%	6.81%	17.21%	13.00%	5.40%	10.73%
Sales/Assets	0.38	0.31	0.54	0.12	0.20	0.30
Proj. Sales Growth (F1/F0)	4.09%	4.13%	4.15%	0.00%	1.70%	5.57%
Momentum Score	A	-	-	A	C	C
Daily Price Chg	3.93%	1.57%	1.40%	2.02%	2.03%	1.80%
1 Week Price Chg	0.22%	-1.09%	-2.60%	-1.54%	3.51%	2.03%
4 Week Price Chg	10.82%	2.03%	1.96%	2.55%	9.92%	11.77%
12 Week Price Chg	12.75%	2.00%	6.04%	2.03%	11.43%	11.10%
52 Week Price Chg	34.69%	8.94%	16.68%	17.79%	18.77%	43.07%
20 Day Average Volume	1,572,169	97,183	1,966,046	348,468	506,959	749,132
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.84%	2.81%	0.00%
(F1) EPS Est 4 week change	0.75%	0.00%	0.00%	0.56%	2.12%	2.32%
(F1) EPS Est 12 week change	0.39%	0.00%	-0.08%	0.56%	-0.73%	2.18%
(Q1) EPS Est Mthly Chg	-0.10%	0.00%	0.00%	1.61%	1.37%	1.69%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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