

The Allstate Corp. (ALL)

\$96.26 (As of 08/13/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 08/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Allstate's earnings of \$2.46 per share beat the Zacks Consensus Estimate by 74.47% and grew 12.8% year over year, led by improved premiums and policies in force. However, its shares have underperformed its industry in a year's time. The company is poised to grow on the back of its solid property and liability segment. Top-line growth over the years owing to its broad product suite and pricing discipline is a positive. Acquisitions made recently bode well too. Moreover, its thriving service business provides a diversified revenue stream. The company's solvency position is an added boon. However, Allstate is exposed to catastrophe losses, thereby denting its underwriting results. High costs might also limit margin expansion and are likely to remain elevated owing to investments. Plus, low interest rates weigh on investment income.

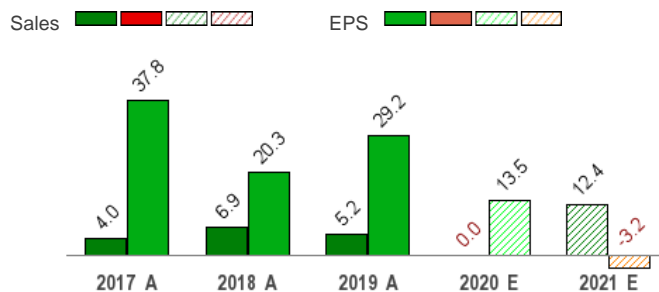
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.92 - \$64.13
20 Day Average Volume (sh)	1,914,728
Market Cap	\$30.1 B
YTD Price Change	-14.4%
Beta	0.84
Dividend / Div Yld	\$2.16 / 2.2%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 40% (101 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	74.5%
Last Sales Surprise	-2.9%
EPS F1 Est- 4 week change	10.8%
Expected Report Date	11/03/2020
Earnings ESP	2.4%

P/E TTM	8.0
P/E F1	8.1
PEG F1	1.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,249 E	11,423 E	11,612 E	11,809 E	48,093 E
2020	10,538 A	10,493 A	10,788 E	10,970 E	42,803 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	\$3.24 E	\$2.34 E	\$2.59 E	\$3.47 E	\$11.46 E
2020	\$3.54 A	\$2.46 A	\$2.98 E	\$3.27 E	\$11.84 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 08/13/2020. The reports text is as of 08/14/2020.

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.

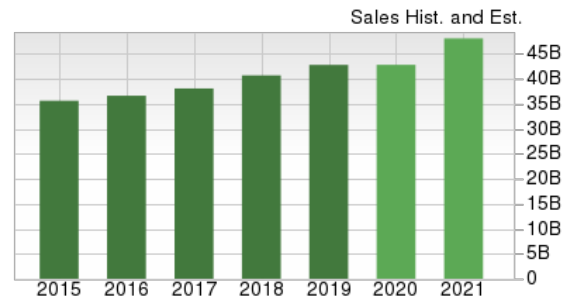
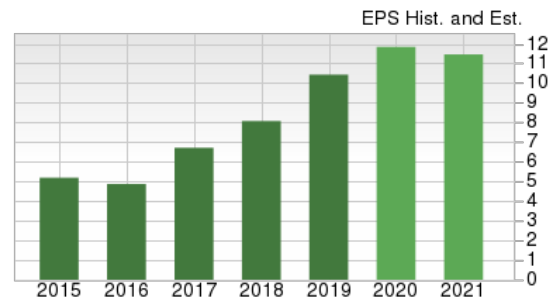
Allstate Life (4%) offers traditional, interest-sensitive and variable life insurance products through Allstate exclusive agencies and exclusive financial specialists.

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 company has underperformed its industry in a year's time. However, its solid fundamentals are likely to help the stock bounce back in the coming quarters. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 7.1% upward over the past seven days.

▲ **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. In the first six months of 2020, premiums written were up 2.3% 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.

The company is on course to acquire National General Holdings Corp., which will enhance its strategic position in the independent agent distribution channel. The deal advances Allstate's strategy to increase its market share in personal property-liability with market share increasing 1%. Allstate becomes a top 5 personal lines carrier in the independent agent (IA) distribution channel. National General has a strong position in higher risk or "non-standard" auto insurance. Acquisition will be accretive to Allstate's earnings per share and ROE, reflecting significant cost synergies. The company expects a high-single digit earnings accretion in the first year post close. It also anticipates ROE accretion of approximately 100 bps, mirroring substantial cost efficiency.

▲ **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 and 13.7% in the first six months of 2020.

▲ **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. Over the last year, the company has repurchased 5.2% of outstanding shares. In Feb 2020, Allstate increased its quarterly dividend by 8%. Its current dividend yield of 2.3% 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 17.5%, has increased over the past two years (2018 & 2019), remains way above the industry's ROE of 6.5%, 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.

Risks

- **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 the first half of 2020, the company incurred catastrophe losses of \$1.39 billion, down 20% 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.
 - **Pressure on Investment Income:** The company's investment income has suffered due to low interest rates (down by 2.5% in 2019). It further declined 48% in the first six months of 2020. Though the company has lowered its exposure in growth-sensitive assets, which is likely to improve its investment portfolio's risk profile, the low interest rate resulting in low investment yield will pressurize net investment income.
 - **High Leverage:** The company's debt-to-equity ratio of 26.5% is higher than the industry average of 1.7%. Also, the company's cash and cash equivalents of \$5.89 billion is lower than its long-term debt and liabilities of \$20.6 billion.
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Last Earnings Report

Allstate's Q2 Earnings Beat Estimates

Allstate Corporation's second-quarter 2020 earnings of \$2.46 per share beat the Zacks Consensus Estimate by 74.47% and also increased 12.8% year over year, led by improved premiums and policies in force.

However, revenues of \$10.49 billion missed the Zacks Consensus Estimate by 2.87% and also dipped 3% year over year due to weak net investment income, partly offset by higher premiums.

Total expenses declined 4.1% year over year to \$9.6 billion on lower claim expenses, partly offset by a \$738-million Shelter-in-Pay expense.

Total policies in force as of Jun 30, 2020 were 167.54 million, up 28.7% year over year.

Net investment income of \$409 million dropped 56.6% year over year.

The company incurred \$1.19 billion of catastrophe losses, up 10.6% year over year. It also incurred a Shelter-in-Place payback expense of \$738 million.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-2.87%
EPS Surprise	74.47%
Quarterly EPS	2.46
Annual EPS (TTM)	11.97

Solid Segmental Performances

Property-Liability insurance premiums of \$9.17 billion inched up 1.4% year over year, driven by premium and policy growth in Allstate brand personal lines. The segment's underwriting income of \$904 million soared 146.3% year over year, primarily owing to a decline in auto losses from fewer accidents and higher premiums earned, partially offset by the Shelter-in-Place Payback expense and worse catastrophe losses.

Service Business' revenues of \$476 million were up 17.5% year over year owing to higher contributions from Protection Plans, Dealer Services, Arity and Identity Protection businesses, partly offset by soft revenues from Roadside Services.

Allstate Life, Benefits and Annuities' total premium and contract charges were \$604 million, down 2.7% year over year, due to lower contribution from Allstate Benefits as well as Annuities businesses.

Capital Position (as of Jun 30, 2020)

Total shareholders' equity was \$26.98 billion, up 3.8% from the level as of Dec 31, 2019.

Total assets were \$121.3 billion, up 1.1% from the level on Dec 31, 2019.

Adjusted return-on-equity of 18.2% was up 700 basis points year over year.

Share Buyback and Dividend Payment

The company returned \$563 million in cash to its shareholders through \$172 million as common shareholder dividends and the repurchase of \$391 million worth common shares.

Recent News

Allstate Rewards Shareholders With Dividend Declaration — Jul 16, 2020

The board of directors at Allstate has announced dividend of 54 cents per share, which will be paid on Oct 1, 2020 to shareholders of record as on Aug 28.

Allstate Announces June 2020 Catastrophe Losses — Jul 16, 2020

Allstate expects to incur catastrophe loss worth \$204 million, pretax (\$161 million, after tax) for June 2020. The loss of \$181 million, pretax (143 million, after tax) can be attributed to 10 weather-related events. The remaining loss estimate (\$18 million, pretax) is based on unfavorable reserve re-estimates of prior-reported cat losses. Earlier, the company announced a catastrophe loss estimate of \$632 million for April. Along with the previously issued loss projection for both April and May (\$982 million, pretax), catastrophe losses totaled \$1.19 million (\$937 million) for the second quarter.

Allstate to Buy National General to Grow Personal Insurance — Jul 7, 2020

Allstate has agreed to acquire National General Holdings Corporation, a specialty personal lines insurance holding company, for a deal value of approximately \$4 billion in cash or \$34.50 per share. This move is in line with the company's long-term strategy to grow its personal lines business. The company will fund this acquisition by a mix of cash in hand (\$2.2 billion) and debt (\$1.5 billion).

Allstate extends Shelter-in-Place Payback through June — May 26, 2020

The company has extended its Shelter-in-Place Payback through Jun 30, 2020, for personal auto insurance customers as they drive less and get in fewer accidents during the coronavirus pandemic. The company is also extending the sign up period for free identity protection to Jun 30, 2020, for all U.S. residents.

Valuation

Allstate's shares are down 14.4% and 5.3% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 7.6% and 17.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 2.9 but the sector is down 3.9%.

The S&P 500 index is up 3.3% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 1.2x trailing 12-month price-to-book, which compares to 1.4x for the Zacks sub-industry, 2.48x for the Zacks sector and 4.64x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.86x and as low as 1x, with a 5-year median of 1.51x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$111 price target reflects 1.38x book value.

The table below shows summary valuation data for ALL

Valuation Multiples - ALL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.2	1.4	2.48	4.64
	5-Year High	1.86	1.67	2.91	4.68
	5-Year Low	1	0.93	1.71	2.83
	5-Year Median	1.51	1.46	2.53	3.74
P/S F12M	Current	0.65	1.77	6.22	3.65
	5-Year High	1.12	11.26	6.66	3.65
	5-Year Low	0.52	1.39	4.96	2.53
	5-Year Median	0.86	1.84	6.06	3.05
P/E F12M	Current	8.4	26.06	16.82	22.6
	5-Year High	17.51	31.55	16.82	22.62
	5-Year Low	7.06	21.01	11.58	15.23
	5-Year Median	11.18	25.42	14.92	17.58

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
Arch Capital Group Ltd. (ACGL)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	4
Berkshire Hathaway Inc. (BRK.B)	Neutral	3
Chubb Limited (CB)	Neutral	3
Hallmark Financial Services, Inc. (HALL)	Neutral	4
The Progressive Corporation (PGR)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	ALL	X Industry	S&P 500	AFG	AXS	WRB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	4	3
VGM Score	B	-	-	D	C	C
Market Cap	30.05 B	1.27 B	23.75 B	6.04 B	3.88 B	11.23 B
# of Analysts	8	2	14	2	3	4
Dividend Yield	2.24%	1.31%	1.68%	2.64%	3.56%	0.76%
Value Score	A	-	-	B	C	B
Cash/Price	0.19	0.26	0.07	0.30	0.44	0.26
EV/EBITDA	4.57	5.56	13.35	4.31	8.71	9.95
PEG Ratio	0.98	2.09	2.98	NA	23.59	3.07
Price/Book (P/B)	1.20	1.00	3.20	1.00	0.82	1.92
Price/Cash Flow (P/CF)	7.09	10.45	12.97	5.90	10.30	16.55
P/E (F1)	8.13	15.22	22.17	9.64	117.97	27.61
Price/Sales (P/S)	0.69	0.84	2.54	0.81	0.79	1.46
Earnings Yield	12.30%	5.50%	4.31%	10.37%	0.85%	3.63%
Debt/Equity	0.27	0.24	0.77	0.31	0.38	0.50
Cash Flow (\$/share)	13.58	3.12	6.94	11.57	4.47	3.81
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	21.39%	3.85%	10.41%	11.69%	-22.66%	7.72%
Proj. EPS Growth (F1/F0)	13.54%	-6.42%	-6.32%	-17.92%	-84.52%	-24.59%
Curr. Cash Flow Growth	30.84%	3.77%	5.22%	7.42%	-8.72%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	9.17%	4.81%	8.55%	12.34%	-11.78%	4.12%
Current Ratio	0.30	0.45	1.33	0.15	0.59	0.45
Debt/Capital	19.73%	20.03%	44.59%	23.79%	25.37%	33.35%
Net Margin	10.28%	5.18%	10.13%	3.13%	-0.41%	4.57%
Return on Equity	17.25%	6.80%	14.59%	11.34%	-1.85%	7.55%
Sales/Assets	0.37	0.31	0.51	0.11	0.19	0.29
Proj. Sales Growth (F1/F0)	0.03%	0.00%	-1.40%	-34.34%	-6.60%	4.22%
Momentum Score	C	-	-	F	C	D
Daily Price Chg	-0.62%	-0.59%	0.67%	-2.05%	0.59%	-0.77%
1 Week Price Chg	2.67%	4.75%	2.30%	8.47%	9.90%	3.47%
4 Week Price Chg	6.77%	5.80%	4.87%	9.51%	13.74%	2.34%
12 Week Price Chg	-0.78%	16.76%	13.54%	17.42%	25.40%	18.10%
52 Week Price Chg	-5.37%	-11.59%	6.06%	-30.82%	-27.50%	-10.50%
20 Day Average Volume	1,914,728	132,578	2,006,991	471,551	885,977	723,861
(F1) EPS Est 1 week change	3.26%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	10.78%	0.00%	1.95%	3.10%	-50.84%	-10.66%
(F1) EPS Est 12 week change	9.70%	-6.57%	2.72%	23.92%	-59.59%	-11.52%
(Q1) EPS Est Mthly Chg	20.94%	0.00%	0.84%	11.51%	-45.68%	17.65%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	D
Momentum Score	C
VGM Score	B

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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