

The Allstate Corp. (ALL)

\$117.55 (As of 01/17/20)

Price Target (6-12 Months): **\$124.00**

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: A

Growth: B

Momentum: B

Summary

The shares of Allstate Corporation have outperformed the industry, year to date. The company is poised to grow on the back of its solid property and liability segment. A number of initiatives undertaken by Allstate to improve profitability in its auto segment are now driving growth. A strong balance sheet and intelligent capital management are the 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. The stock has seen the Zacks Consensus Estimate for 2020 earnings being revised upward over the last seven days. However, it is exposed to catastrophe losses, owing to the large property insurance business. Escalating expenses might weigh on margins.

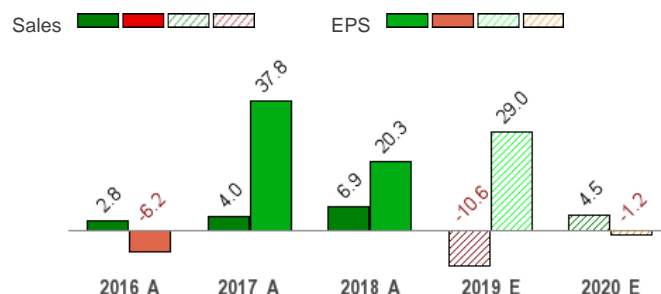
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$117.62 - \$84.60 |
| 20 Day Average Volume (sh) | 1,339,811 |
| Market Cap | \$38.1 B |
| YTD Price Change | 4.5% |
| Beta | 0.81 |
| Dividend / Div Yld | \$2.00 / 1.7% |
| Industry | <u>Insurance - Property and Casualty</u> |
| Zacks Industry Rank | Top 22% (57 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 12.7% |
| Last Sales Surprise | 19.9% |
| EPS F1 Est- 4 week change | -0.0% |
| Expected Report Date | 02/04/2020 |
| Earnings ESP | 3.2% |
| P/E TTM | 13.7 |
| P/E F1 | 11.4 |
| PEG F1 | 1.4 |
| P/S TTM | 0.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | | | | | 38,019 E |
| 2019 | 10,328 A | 10,820 A | 10,872 A | 9,215 E | 36,395 E |
| 2018 | 9,904 A | 10,124 A | 10,289 A | 10,375 A | 40,692 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2020 | \$2.87 E | \$2.01 E | \$2.30 E | \$3.01 E | \$10.28 E |
| 2019 | \$2.30 A | \$2.18 A | \$2.84 A | \$3.00 E | \$10.41 E |
| 2018 | \$2.96 A | \$1.90 A | \$1.93 A | \$1.24 A | \$8.07 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 01/17/2020. The reports text is as of 01/20/2020.

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.

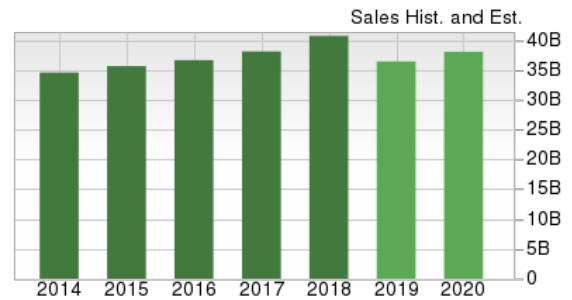
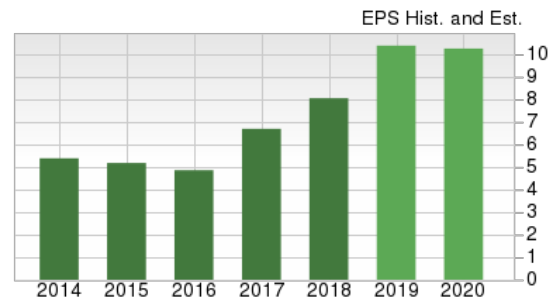
Allstate Life (4%) offers traditional, interest-sensitive and variable life insurance products through Allstate exclusive agencies and exclusive financial specialists.

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 stock has seen the Zacks Consensus Estimate for 2020 earnings being revised 0.8% upward over the last 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. The trend continued in the first nine months of 2019 with revenues up 9.5%. 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 26.3% in the first nine months of 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. The same was up 0.7% in the first nine months of 2019. The company has lowered its exposure in growth-sensitive assets, which is likely to improve its investment portfolio's risk profile.
- ▲ **Improvement in Financial Leverage:** The company's debt-to-equity ratio has gone down to 25.4% as of Sep 30, 2019 from 27.3% in the year-ago quarter. Times interest earned, a ratio that measures the company's ability to pay its interest expenses is 11X, better than the industry average of 10X. 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 February 2019, Allstate increased its quarterly dividend by 8.7%. Its current dividend yield of 1.8% 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 13.8%, 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. For the first nine months of 2019, the company incurred catastrophe losses of \$2.3 billion, up 6.3% 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 9% in the first nine months of 2019, and we expect an increase in operating cost going forward (which will compress margins) as the company continues with investments.

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 Q3

Allstate Corporation third-quarter 2019 earnings of \$2.84 per share beat the Zacks Consensus Estimate by 12.7% and were up 47% year over year, led by revenue growth.

Revenues of \$10.8 billion outpaced the Zacks Consensus Estimate by 19.9%. The top line was up 5.7% year over year, driven by an increase in premiums, investment income, life premiums and contract charges.

Total expenses increased 6.7% year over year to \$9.9 billion on higher property and casualty insurance claims, life contract benefits, pension and other post-retirement costs.

The company incurred catastrophe loss of \$510 million, down 18% year over year.

Total policies in force as of Sep 30, 2019 were 136.1 million, up 40.7% year over year.

Net investment income of \$880 million increased 4.3% year over year.

Solid Segmental Performance

Property-Liability insurance premiums of \$9.3 billion increased 5.8% year over year due to rise in premium in Auto, Homeowners as well as Commercial line insurance. The segment's underwriting income of \$737 million was up 45.4% year over year due to reduced operating expenses.

Service Business' revenues were \$418 million, up 27% year over year. This upside was primarily driven by higher contribution from the company's Protection Plans, Dealer Services and Arity business.

Allstate Life, Benefits and Annuities total premium and contract charges were \$625 million, up 2% year over year, driven by higher contribution from Life and Benefits business.

Capital Position (as of Sep 30, 2019)

Total shareholders' equity was \$26.1 billion, up 23% from year-end 2018 level.

Total assets were \$121.1 billion, up 7.8% from 2018 year-end level.

The company's financial leverage position improved with a 120 basis point reduction in debt-to-equity ratio to 20.2%.

Adjusted return on equity of 14.2% was down 270 basis point year over year.

Adjusted book value per share was \$63.70, up 4.6% year over year.

Share Buyback and Dividend Buyback

The company returned \$775 million to common shareholders in the third quarter of 2019 through a combination of \$166 million in common stock dividends and \$509 million of share repurchases.

Quarter Ending 09/2019

| | |
|------------------|--------------|
| Report Date | Oct 29, 2019 |
| Sales Surprise | 19.91% |
| EPS Surprise | 12.70% |
| Quarterly EPS | 2.84 |
| Annual EPS (TTM) | 8.56 |

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 37.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector is up 13% and 11.7%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 1.65X trailing 12-month price to book, which compares to 1.44X for the Zacks sub-industry, 2.86X 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 1.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 1.74X price to book.

The table below shows summary valuation data for ALL

Industry Analysis Zacks Industry Rank: Top 22% (57 out of 254)



Top Peers

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

| Industry Comparison Industry: Insurance - Property And Casualty | | | | Industry Peers | | |
|---|-------------|------------|-----------|----------------|------------------|----------------|
| | ALL Neutral | X Industry | S&P 500 | AFG Neutral | AXS Underperform | WRB Outperform |
| VGM Score | A | - | - | B | D | C |
| Market Cap | 38.08 B | 1.99 B | 24.65 B | 10.03 B | 5.12 B | 12.92 B |
| # of Analysts | 7 | 2 | 13 | 3 | 3 | 4 |
| Dividend Yield | 1.70% | 0.98% | 1.73% | 1.62% | 2.69% | 0.63% |
| Value Score | A | - | - | A | C | D |
| Cash/Price | 0.16 | 0.18 | 0.04 | 0.28 | 0.24 | 0.12 |
| EV/EBITDA | 11.69 | 9.50 | 14.11 | 9.50 | 21.91 | 12.55 |
| PEG Ratio | 1.37 | 1.71 | 2.08 | 2.29 | 2.44 | 2.66 |
| Price/Book (P/B) | 1.65 | 1.27 | 3.39 | 1.58 | 1.06 | 2.11 |
| Price/Cash Flow (P/CF) | 12.04 | 13.97 | 13.81 | 10.23 | 12.42 | 19.97 |
| P/E (F1) | 11.43 | 13.88 | 19.19 | 12.47 | 12.20 | 23.95 |
| Price/Sales (P/S) | 0.89 | 1.05 | 2.69 | 1.29 | 1.01 | 1.64 |
| Earnings Yield | 8.75% | 7.18% | 5.21% | 8.02% | 8.19% | 4.18% |
| Debt/Equity | 0.29 | 0.21 | 0.72 | 0.23 | 0.33 | 0.38 |
| Cash Flow (\$/share) | 9.76 | 3.05 | 6.94 | 10.88 | 4.91 | 3.52 |
| Growth Score | B | - | - | B | F | B |
| Hist. EPS Growth (3-5 yrs) | 13.91% | -0.55% | 10.56% | 13.41% | -23.80% | 4.12% |
| Proj. EPS Growth (F1/F0) | -1.25% | 6.72% | 7.57% | 3.78% | 82.16% | -4.30% |
| Curr. Cash Flow Growth | 5.36% | 9.94% | 14.73% | 39.71% | -541.78% | 50.32% |
| Hist. Cash Flow Growth (3-5 yrs) | 1.93% | 7.23% | 9.00% | 13.00% | -13.32% | 3.89% |
| Current Ratio | 0.30 | 0.44 | 1.24 | 0.16 | 0.55 | 0.36 |
| Debt/Capital | 20.23% | 17.79% | 42.99% | 18.38% | 22.20% | 27.75% |
| Net Margin | 6.57% | 5.34% | 11.14% | 8.43% | 2.68% | 8.82% |
| Return on Equity | 13.83% | 6.81% | 17.16% | 12.83% | 2.02% | 10.60% |
| Sales/Assets | 0.37 | 0.31 | 0.55 | 0.12 | 0.20 | 0.31 |
| Proj. Sales Growth (F1/F0) | 4.46% | 4.75% | 4.16% | NA | 1.30% | 6.41% |
| Momentum Score | B | - | - | D | D | D |
| Daily Price Chg | 1.21% | 0.39% | 0.27% | 0.53% | 0.54% | 0.90% |
| 1 Week Price Chg | 0.55% | -0.83% | 0.39% | -0.88% | 0.72% | -1.72% |
| 4 Week Price Chg | 5.70% | 1.84% | 2.95% | 0.52% | 1.31% | 2.36% |
| 12 Week Price Chg | 8.58% | 2.52% | 7.76% | 8.71% | -1.31% | -0.45% |
| 52 Week Price Chg | 39.00% | 10.68% | 22.29% | 16.60% | 11.53% | 40.89% |
| 20 Day Average Volume | 1,339,811 | 115,834 | 1,536,375 | 259,493 | 393,874 | 578,312 |
| (F1) EPS Est 1 week change | -0.06% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -0.01% | 0.00% | 0.00% | 0.00% | -0.40% | 0.20% |
| (F1) EPS Est 12 week change | 0.33% | -0.42% | -0.40% | -1.47% | -2.91% | 1.24% |
| (Q1) EPS Est Mthly Chg | -0.07% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

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 | B |
| Momentum Score | B |
| 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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.