

Cincinnati Financial(CINF)

\$114.08 (As of 02/10/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Cincinnati Financial's fourth-quarter 2019 operating income of \$1.23 per share beat the Zacks Consensus Estimate by 10.8% and also improved 25.5% year over year on the back of higher revenues. Its shares have outperformed the industry in a year's time. The company is appointing agencies and expanding product offerings to ramp up its business. It continues to grow premiums through a disciplined expansion of Cincinnati Re while the division makes a nice contribution to the company's overall earnings. Commitment toward executing its strategic initiatives will help improve pricing precision. Low leverage, ample capital, consistent cash flow generation and favorable reserve release should drive growth. However, exposure to cat loss makes its earnings volatile. Higher expenses might also weigh on margins.

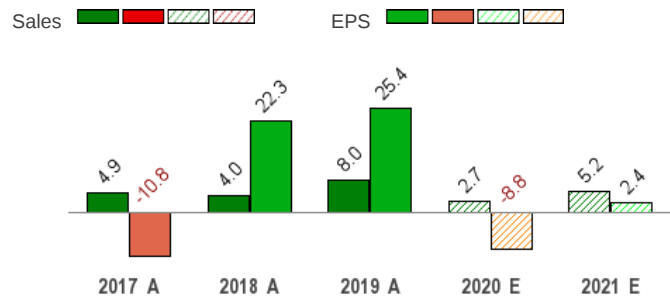
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$118.19 - \$83.09
20 Day Average Volume (sh)	546,332
Market Cap	\$18.6 B
YTD Price Change	8.5%
Beta	0.57
Dividend / Div Yld	\$2.40 / 2.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 33% (85 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.8%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	04/22/2020
Earnings ESP	-2.8%
P/E TTM	27.1
P/E F1	29.8
PEG F1	NA
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,646 E	1,682 E	1,720 E	1,727 E	6,774 E
2020	1,564 E	1,599 E	1,637 E	1,643 E	6,442 E
2019	1,496 A	1,549 A	1,614 A	1,615 A	6,274 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.09 E	\$0.76 E	\$0.88 E	\$1.18 E	\$3.92 E
2020	\$1.06 E	\$0.75 E	\$0.87 E	\$1.16 E	\$3.83 E
2019	\$1.05 A	\$0.85 A	\$1.08 A	\$1.23 A	\$4.20 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 02/10/2020. The reports text is as of 02/11/2020.

Overview

Cincinnati Financial Corporation, formed in 1968 with its headquarters in Fairfield, OH, markets property and casualty insurance. Cincinnati Financial owns three subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc. and CFC Investment Company. In addition, the parent company has an investment portfolio.

The Cincinnati Insurance Company owns four additional insurance subsidiaries. The standard market property casualty insurance group includes two of those subsidiaries – The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group writes a broad range of business, homeowner and auto policies. The Cincinnati Insurance Company also conducts the business of our reinsurance assumed operations, known as Cincinnati Re. Other subsidiaries of The Cincinnati Insurance Company include: The Cincinnati Life Insurance Company providing life insurance policies and fixed annuities and The Cincinnati Specialty Underwriters Insurance Company offering excess and surplus lines insurance products.

The company presents its results through five separate operating segments:

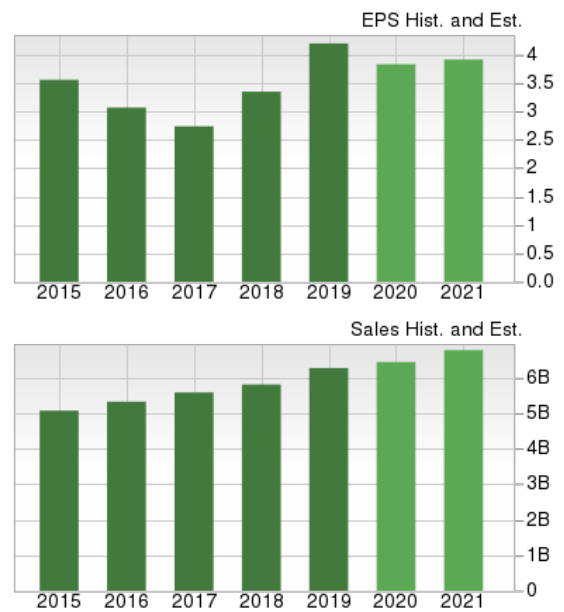
Commercial Lines Insurance segment (61.2% of 2019 revenues) provides property and casualty insurance through five commercial business lines – Commercial casualty, Commercial property, Commercial auto, Workers' compensation, and Other commercial lines.

Personal Lines Insurance segment (26%) functions through three separate lines of business – Personal auto, Home owners and other personal lines.

Life Insurance segment (7.8%) offers insurance products through its subsidiary, the Cincinnati Life Insurance Company. Four lines of business within this segment – Term life insurance, Universal life insurance, Worksite products and Whole life insurance ? account for most part of the segment revenues. In addition, Cincinnati Life markets Disability income insurance, Deferred annuities and Immediate annuities.

Excess and Surplus Insurance segment (5%) covers small to mid-sized business risks with unique characteristics that are difficult to profitably insure in the standard commercial lines market. Its coverages include Commercial casualty and Commercial property.

The Investments segment invests in publicly traded fixed-maturity, equity, and short-term investments.



Reasons To Buy:

- ▲ Shares of Cincinnati Financial have outperformed the industry in a year's time. Higher premiums, continued strong performance at Commercial Lines segment and a robust capital position are likely to drive the shares higher in the near term.
- ▲ Cincinnati Financial's Commercial Lines Insurance segment has been consistently witnessing top-line growth over the past several quarters and the momentum continued into 2019 on several growth initiatives and price increases. Additionally, the company implemented the use of predictive analytics to improve its pricing precision while leveraging local relationships with its agents.
- ▲ The company's net written premiums have been increasing over the past many years, evident from its 2014-2019 CAGR of 4.7%, primarily attributable to premium growth initiatives, price increases and a higher level of insured exposures. Also, Cincinnati Financial continues to grow premiums through a disciplined expansion of Cincinnati Re while the division makes a nice contribution to the company's overall earnings. We expect Cincinnati Re to continue delivering a favorable performance which might help the insurer diversify its business for a much smoother performance over a period of time.
- ▲ Cincinnati Financial remains committed toward executing its strategic initiatives that will help improve pricing precision. Since its inception in 2008, Cincinnati Financial's Excess and Surplus (E&S) line has been performing well. Over the past five years, E&S net written premiums have nearly doubled. Despite a soft market environment, the segment has been able to achieve rate increases consistently for the last few years. We expect this trend to continue, given the improving excess and surplus lines market.
- ▲ Appointing new agencies was one of the several strategic initiatives adopted by the company. Given the Cincinnati Financial's agent-centered business model, its relationship with local insurance agencies is a primary strategic advantage. In 2019, the company appointed 187 independent agencies, 70 of which are related to personal lines products. In 2020, it plans to further appoint about 125 additional agencies, most offering property casualty insurance products and another 35 catering to personal lines. These agencies as well as others, appointed in recent years continue to present the company with opportunities to increase its market share. The company is focused on earning new business through such agencies from a combination of quality service and expansion of insurance products for clients of those agencies. The insurer is also confident that its agent-focused business model will drive long term premium growth just as it has for more than 60 years.
- ▲ Despite a still low interest rate environment, Cincinnati Financial has been witnessing net investment income growth for the last few years. In the last five years, the P&C insurer saw net investment income grow 3.2%. Continuing with this trend, the company's net investment income rose 4% in 2019. Moreover, cash flow from operating activities consistently helps the company boost investment income.
- ▲ Cincinnati Financial's consistent cash flow and sufficient cash balances to continue boosting liquidity. In terms of capital management, Cincinnati Financial has returned capital to shareholders through regular cash dividends as well as special dividends. Recently, the company's board of directors hiked its regular cash dividend by 7.1%. This reflects the company's strong capital position, its financial and liquidity flexibility as well as its operational performance. Management has been consistently hiking the company's annual dividend for the past 60 years, a record matched by only seven other publicly-traded companies in the United States.

Strong performance at Commercial Lines segment, low leverage, ample capital, consistent cash flow generation, favorable reserve release, share repurchases should drive growth for Cincinnati Financial.

Risks

- Though Cincinnati Financial has a diversified geographic profile, its business is significantly concentrated on the Midwest region, which is prone to catastrophes. As such, the company's operations have substantial catastrophe loss, which make its earnings volatile. Exposure to cat occurrences will always remain a concern as natural disasters can potentially affect results. Significant catastrophic events in the near future might widen the company's loss further, keeping the combined ratio under pressure.
 - Over the last five years, the company has been witnessing an increase in expenses over the past many years due to a rise in insurance loss and policyholder benefits as well as underwriting, acquisition and insurance expenses. Expenses increased 9% in 2019. The company should strive to generate a higher revenue growth rate than the rise in expenses, else margin could be dented.
 - Valuation remains stretched at current level. The company's price-to-book ratio of 1.89X, the best multiple for valuing insurers, is higher than the industry range of 1.44X.
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Last Earnings Report

Cincinnati Financial's Q4 Earnings Top, Rise Y/Y

Cincinnati Financial reported fourth-quarter 2019 operating income of \$1.23 per share, beating the Zacks Consensus Estimate by 10.8%. Also, the bottom line improved 25.5% year over year on the back of higher revenues.

Operational Update

Total operating revenues in the quarter under review were \$1.6 billion, up 8.8% year over year. This improvement was driven by 9% higher premiums earned and a 4% rise in investment income.

Net written premiums increased 11% from the prior-year quarter, reflecting price increases and premium growth initiatives.

Total benefits and expenses of Cincinnati Financial increased 6.2% year over year to \$1.4 billion, primarily due to higher insurance loss and contract holders' benefits plus underwriting, acquisition and insurance expenses.

Combined ratio — a measure of underwriting profitability — improved 230 basis points (bps) year over year to 91.6%.

Quarterly Segment Update

Commercial Lines Insurance: Total revenues of \$854 million grew 5% year over year. This upside was primarily boosted by solid premiums earned. Underwriting profit of \$97 million surged 76.4% year over year as well. The combined ratio also contracted 460 bps year over year to 88.8%.

Personal Lines Insurance: Total revenues of \$359 million rose 5% year over year owing to 5% increase in premiums earned. The segment generated underwriting profit of \$4 million, plunging 87% year over year. The combined ratio expanded 760 bps year over year to 99.3%.

Excess and Surplus Lines Insurance: Total revenues of \$76 million climbed 25% year over year, aided by 25% higher earned premiums. However, the segment's underwriting profit of \$13 million dropped 13% year over year.

Moreover, the combined ratio expanded 750 bps year over year to 82.9%.

Life Insurance: Total revenues were \$106 million, up 6% year over year.

Full-Year Update

For the full year, total operating income came in at \$4.20 per share, up 25% year over year. Total revenues for the year resulted in \$7.9 billion, up 47% year over year.

Financial Update

As of Dec 31, 2019, cash and invested assets were \$20.5 billion, up 17% from the 2018-end level.

Total assets of \$25.4 billion increased 15.8% from the figure at 2018 end.

Total debt amounted to \$827 million, up 0.9% from the number at 2018 end.

Cincinnati Financial's debt-to-capital ratio was 7.7% as of Dec 31, 2019, contracting 180 bps from the number at 2018 end.

As of Dec 31, 2019, its book value per share was at \$60.55, up 26% from the figure at 2018 end.

Quarter Ending 12/2019

Report Date	Feb 05, 2020
Sales Surprise	7.03%
EPS Surprise	10.81%
Quarterly EPS	1.23
Annual EPS (TTM)	4.21

Recent News

Cincinnati Financial Corporation Increases Dividend — Jan 31, 2020

The company has announced a 60-cents-per-share regular quarterly cash dividend, increasing from the previous 56-cents-per-share dividend paid on Jan 15, 2020. The dividend is payable Apr 15, 2020, to shareholders of record as of Mar 18, 2020.

AM Best Upgrades Issuer Credit Ratings of Cincinnati Financial — Jan 30, 2020

AM Best has upgraded the Long-Term Issuer Credit Rating (Long-Term ICR) to “aa” from “aa-” and affirmed the Financial Strength Rating (FSR) of A+ (Superior) of The Cincinnati Insurance Company (CIC), the lead property/casualty (P/C) company and its three subsidiaries (collectively referred to as CFC). The outlook of the Long-Term ICRs has been revised to stable from positive while the outlook of the FSR remains stable. Concurrently, AM Best has upgraded the FSR to A+ (Superior) from A (Excellent) and the Long-Term ICR to “aa-” from “a+” of The Cincinnati Life Insurance Company (CLIC), the life insurance subsidiary of CIC. The outlook of these Credit Ratings (ratings) has been revised to stable from positive.

Additionally, AM Best has upgraded the Long-Term ICR to “a” from “a-” and the Long-Term Issue Credit Ratings (Long-Term IR) of the companies’ publicly traded parent, Cincinnati Financial Corporation. The outlook of these ratings have been revised to stable from positive. All companies except The Cincinnati Specialty Underwriters Insurance Company (CSU) are domiciled in Fairfield, OH. CSU is domiciled in Delaware. (See below for a detailed listing of the Long-Term IRs.)

The ratings reflect CFC’s balance sheet strength, which AM Best categorizes as strongest, as well as its strong operating performance, favorable business profile and appropriate enterprise risk management (ERM).

Valuation

Cincinnati Financial shares are up 35% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Zacks Finance sector are up 11.5% and 9.1%, respectively. The S&P 500 index is up 20.3% in the past year.

The stock is currently trading at 1.89X trailing 12-month book value, which compares to 1.45X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.32X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.09X and as low as 1.24X, with a 5-year median of 1.61X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$131 price target reflects 2.17X book value.

The table below shows summary valuation data for CINF

Valuation Multiples -CINF					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.89	1.45	2.83	4.32
	5-Year High	2.09	1.67	2.89	4.42
	5-Year Low	1.24	1.26	1.83	2.85
	5-Year Median	1.61	1.47	2.51	3.62
P/S F12M	Current	2.97	1.71	6.55	3.55
	5-Year High	2.97	11.26	6.65	3.6
	5-Year Low	1.85	1.55	5.39	2.54
	5-Year Median	2.1	1.89	6.03	3.00
P/E F12M	Current	29.69	26.81	14.92	19.27
	5-Year High	31.47	31.55	16.21	19.34
	5-Year Low	19.32	22.77	12.01	15.17
	5-Year Median	24.41	25.90	14.15	17.47

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 33% (85 out of 255)



Top Peers

Markel Corporation (MKL)	Outperform
W.R. Berkley Corporation (WRB)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
The Allstate Corporation (ALL)	Neutral
Chubb Limited (CB)	Neutral
CNA Financial Corporation (CNA)	Neutral
The Travelers Companies, Inc. (TRV)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CINF Outperform	X Industry	S&P 500	ALL Neutral	CB Neutral	TRV Neutral
VGM Score	D	-	-	A	B	B
Market Cap	18.64 B	1.76 B	24.00 B	40.15 B	74.03 B	35.16 B
# of Analysts	3	2	13	9	8	9
Dividend Yield	1.96%	1.01%	1.78%	1.61%	1.84%	2.41%
Value Score	D	-	-	B	C	C
Cash/Price	0.04	0.18	0.04	0.11	0.02	0.15
EV/EBITDA	51.11	9.67	14.07	12.39	13.77	4.10
PEG Ratio	NA	1.75	2.04	1.45	1.49	1.54
Price/Book (P/B)	1.89	1.22	3.28	1.69	1.34	1.36
Price/Cash Flow (P/CF)	30.33	14.07	13.58	10.65	14.97	4.45
P/E (F1)	29.79	13.76	18.86	12.04	14.88	13.14
Price/Sales (P/S)	2.35	1.06	2.65	0.90	2.10	1.11
Earnings Yield	3.36%	7.00%	5.30%	8.30%	6.72%	7.61%
Debt/Equity	0.09	0.21	0.71	0.28	0.24	0.25
Cash Flow (\$/share)	3.76	3.05	6.89	11.64	10.91	30.61
Growth Score	D	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	3.06%	0.72%	10.80%	16.31%	-0.89%	-5.01%
Proj. EPS Growth (F1/F0)	-8.73%	12.38%	7.23%	-1.33%	8.58%	8.00%
Curr. Cash Flow Growth	20.00%	9.94%	9.51%	12.20%	-7.34%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	3.59%	7.23%	8.55%	5.86%	7.11%	-1.19%
Current Ratio	0.29	0.44	1.20	0.28	0.34	0.39
Debt/Capital	8.23%	18.09%	42.90%	20.32%	19.94%	20.18%
Net Margin	25.20%	6.39%	11.76%	10.85%	12.61%	8.30%
Return on Equity	7.50%	7.50%	16.98%	16.05%	8.59%	10.03%
Sales/Assets	0.32	0.31	0.54	0.38	0.20	0.29
Proj. Sales Growth (F1/F0)	2.68%	4.13%	4.15%	3.84%	2.18%	4.10%
Momentum Score	B	-	-	A	B	D
Daily Price Chg	1.11%	0.19%	-0.64%	-0.39%	0.38%	0.15%
1 Week Price Chg	7.51%	1.84%	-2.60%	4.97%	7.07%	3.34%
4 Week Price Chg	8.55%	0.39%	0.72%	8.27%	8.25%	-0.03%
12 Week Price Chg	5.77%	3.39%	4.69%	11.16%	6.89%	1.44%
52 Week Price Chg	35.71%	8.61%	16.01%	33.96%	25.10%	8.61%
20 Day Average Volume	546,332	94,315	1,961,054	1,569,834	1,672,062	1,412,862
(F1) EPS Est 1 week change	0.44%	0.00%	0.00%	0.14%	0.25%	0.00%
(F1) EPS Est 4 week change	0.44%	0.00%	-0.00%	0.91%	0.06%	-4.39%
(F1) EPS Est 12 week change	2.91%	0.00%	-0.16%	0.61%	-0.80%	-5.11%
(Q1) EPS Est Mthly Chg	0.95%	0.00%	0.00%	-0.19%	0.96%	-3.42%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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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