

Cincinnati Financial(CINF)

\$71.81 (As of 04/28/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/20)

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

Cincinnati Financial's earnings of 84 cents per share missed the Zacks Consensus Estimate by 23.6% and the bottom line deteriorated 20% year over year. 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. Shares have underperformed the industry in a year's time. Nevertheless, it flaunts a solid capital position based on which it engages in returning value to shareholders via cash dividends and special dividends. Low leverage, consistent cash flow generation, favorable reserve release should drive its growth as well. However, the exposure to catastrophe loss makes earnings volatile. Higher expenses can also put strain on margin expansion.

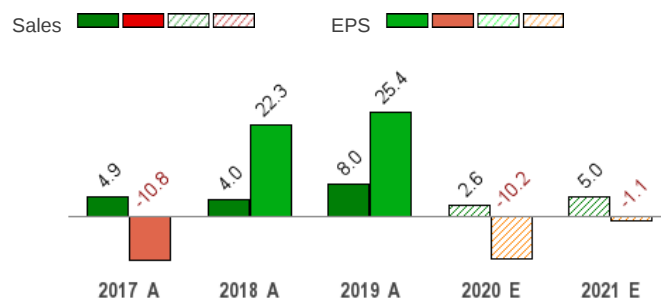
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$118.19 - \$65.69
20 Day Average Volume (sh)	973,030
Market Cap	\$11.5 B
YTD Price Change	-31.7%
Beta	0.82
Dividend / Div Yld	\$2.40 / 3.3%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 45% (139 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.6%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	08/04/2020
Earnings ESP	-2.8%
P/E TTM	18.0
P/E F1	19.1
PEG F1	NA
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,644 E	1,679 E	1,716 E	1,722 E	6,760 E
2020	1,626 A	1,598 E	1,635 E	1,641 E	6,438 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	\$1.05 E	\$0.70 E	\$0.78 E	\$1.17 E	\$3.73 E
2020	\$0.84 A	\$0.71 E	\$0.78 E	\$1.16 E	\$3.77 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 04/28/2020. The reports text is as of 04/29/2020.

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:

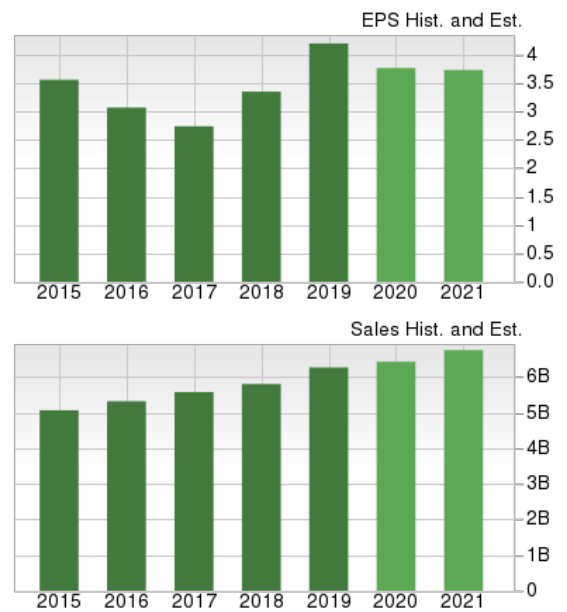
Commercial Lines Insurance segment (61.2% of 2019 revenues) provides property and casualty insurance through five commercial business lines – Commercial casualty, Commercial property, Commercial auto, Workers' compensation and other commercial lines.

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 lost 25.4% compared with the industry's decline of 15.3% in a year's time. Nevertheless, 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, led by several growth initiatives and price increases. In the first quarter of 2020, total revenues grew 7% to \$864 million year over year on the back of solid premiums earned. 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. In the first quarter of 2020, net written premiums grew 10% year over year to \$1.5 billion driven by price increases and premium growth initiatives. 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. In the first quarter of 2020, total revenues grew 23% year over year to \$79 million, aided by 24% higher earned premiums. 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 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 appoint approximately 125 independent agencies that offer most of the property casualty insurance products. During the first three months of 2020, company appointed 50 new agencies to meet the criteria. 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 5% to \$165 million in the first quarter of 2020. 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. In January 2020, the company's board of directors hiked 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. Over the past 59 years, the shareholders have benefited from dividend hikes, and this action sets the stage for a 60th consecutive year. Its dividend yield of 3.3% is better than the industry average of 0.5%, making the stock an attractive pick for yield-seeking investors.

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.

Reasons To Sell:

- ▼ Though Cincinnati Financial has a diversified geographic profile, its business is significantly concentrated in 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.
- ▼ Cincinnati Financial's debt levels have remained relatively stable in the past few years. As of Mar 31, 2020, the company's long-term debt was \$788 million, which remained almost flat with the 2019-end level. However, as of Mar 31, 2020 the company's total debt/total capital ratio of 10.1 is higher than its figure of 7.7 at 2019-end. The company's cash and cash equivalents of \$486 million as of Mar 31, 2020 are not sufficient for the company to meet its debt obligations (\$788 million). Also, the company's times interest earned of 1.5 as on Mar 31, 2020 is poor when compared with the 2019-end figure of 47.6, implying that its earnings are not sufficient to cover interest obligations.
- ▼ 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. In the first quarter of 2020, expenses increased 14.3% due to higher insurance losses and contract holders' benefits plus underwriting, acquisition and insurance expenses. The rise in expenses which surpassed revenue growth in the first quarter pressurizes margins.
- ▼ Valuation remains stretched and expensive at current level. The company's price-to-book ratio, the best multiple for valuing insurers, of 1.18, is higher than the industry range of 1.08. Looking at the company's price-to-book (P/B) ratio, investors may not want to pay any further premium.

Exposure to catastrophes making earnings volatile, higher expenses weighing on margins, continued turmoil in group benefits associated with the Affordable Care Act remain a challenge.

Last Earnings Report

Cincinnati's Q1 Earnings Miss Estimates, Down Y/Y

Cincinnati Financial Corporation reported first-quarter 2020 operating income of 84 cents per share, which missed the Zacks Consensus Estimate by 23.6%. Further, the bottom line deteriorated 20% year over year.

The company's earnings were impacted by lower underwriting income across its property & casualty (P&C) business, primarily due to high underwriting expenses, and loss and loss expenses.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	3.95%
EPS Surprise	-23.64%
Quarterly EPS	0.84
Annual EPS (TTM)	4.00

Operational Update

Total operating revenues in the quarter under review were \$1.6 billion, up 8.7% year over year. This improvement was driven by 9% higher premiums earned and a 5% rise in investment income. The top line also outpaced the Zacks Consensus Estimate by 4%.

Net written premiums improved 10% from the prior-year quarter to \$1.5 billion, reflecting price increases and premium growth initiatives.

Total benefits and expenses of Cincinnati Financial increased 14.3% year over year to \$1.5 billion, primarily due to higher insurance losses and contract holders' benefits plus underwriting, acquisition and insurance expenses.

Combined ratio — a measure of underwriting profitability — expanded 550 basis points (bps) year over year to 98.5%.

Quarterly Segment Update

Commercial Lines Insurance: Total revenues of \$864 million grew 7% year over year. This upside can primarily be attributed to solid premiums earned. It reported underwriting loss of \$20 million against the prior-year quarter's underwriting profit of \$76 million. The combined ratio also expanded 1170 bps year over year to 102.5%.

Personal Lines Insurance: Total revenues of \$360 million rose 4% year over year owing to 4% increase in premiums earned. The segment generated underwriting profit of \$21 million against the prior-year quarter's loss of \$4 million. The combined ratio contracted 700 bps year over year to 94.3%.

Excess and Surplus Lines Insurance: Total revenues of \$79 million climbed 23% year over year, aided by 24% higher earned premiums. However, the segment's underwriting profit of \$9 million declined 18% year over year. The combined ratio expanded 560 bps year over year to 89.1%.

Life Insurance: Total revenues were \$74 million, down 29% year over year.

Financial Update

As of Mar 31, 2020, cash and cash equivalents were \$486 million, down 36.6% from the 2019-end level.

Total assets of \$23.4 billion declined 8% from the figure at 2019 end.

Long-term debt amounted to \$788 million, which remained flat with the number at 2019 end.

Cincinnati Financial's debt-to-capital ratio was 10.1% as of Mar 31, 2020, expanding 240 bps from the number at 2019 end.

As of Mar 31, 2020, its book value per share was at \$50.02, down 17.4% from the figure at 2019 end.

Recent News

Cincinnati Credits Customers With Part Premium Amid the Crisis — Apr 13, 2020

The two property and casualty (P&C) insurance units of Cincinnati Financial Corporation — The Cincinnati Insurance Company and The Cincinnati Casualty Company — have unveiled plans to reward its customers during the crisis. Subject to customary approval, existing auto insurance clients of the company's two units will be entitled to receive a credit of 15% on their monthly premiums payable in April and May. This reward also recognizes the efforts of its members, who have promoted social distancing and stayed back at home.

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 down nearly 31.7% and 25.3% 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 18.6% and 24.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.3% and 20.7%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and 2.7% in the past year.

The stock is currently trading at 1.18x trailing 12-month book value, which compares to 1.08x for the Zacks sub-industry, 2.11x for the Zacks sector and 3.78x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.09x and as low as 1.11x, with a 5-year median of 1.62x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 1.23x 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	1.18	1.08	2.11	3.78
	5-Year High	2.09	1.67	2.90	4.55
	5-Year Low	1.11	0.93	1.71	2.84
	5-Year Median	1.62	1.46	2.52	3.64
P/S F12M	Current	1.78	1.62	4.96	3.22
	5-Year High	2.99	11.26	6.69	3.4
	5-Year Low	1.66	1.55	4.96	2.54
	5-Year Median	2.1	1.88	6.05	3.01
P/E F12M	Current	19.12	22.43	14.94	20.20
	5-Year High	31.47	31.55	16.17	20.20
	5-Year Low	17.28	21.06	11.19	15.19
	5-Year Median	24.48	25.42	13.93	17.45

As of 04/28/2020

Industry Analysis Zacks Industry Rank: NA



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	4
American Financial Group, Inc. (AFG)	Neutral	3
The Allstate Corporation (ALL)	Neutral	2
Chubb Limited (CB)	Neutral	4
CNA Financial Corporation (CNA)	Neutral	3
Markel Corporation (MKL)	Neutral	3
The Travelers Companies, Inc. (TRV)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CINF	X Industry	S&P 500	ALL	CB	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	3
VGM Score	A	-	-	A	B	C
Market Cap	11.55 B	1.20 B	20.14 B	32.27 B	49.84 B	26.37 B
# of Analysts	3	2	14	9	8	8
Dividend Yield	3.34%	1.21%	2.13%	2.12%	2.72%	3.15%
Value Score	B	-	-	A	C	B
Cash/Price	0.06	0.26	0.06	0.14	0.03	0.18
EV/EBITDA	4.49	5.02	12.15	5.10	9.52	3.20
PEG Ratio	NA	1.75	2.43	1.24	1.11	1.75
Price/Book (P/B)	1.19	0.95	2.68	1.39	0.95	1.05
Price/Cash Flow (P/CF)	15.32	9.07	10.78	7.50	9.37	3.41
P/E (F1)	19.10	11.17	19.06	9.33	11.08	11.11
Price/Sales (P/S)	1.97	0.75	2.12	0.72	1.39	0.83
Earnings Yield	5.25%	8.62%	5.11%	10.71%	9.02%	9.00%
Debt/Equity	0.09	0.22	0.72	0.28	0.26	0.26
Cash Flow (\$/share)	4.69	3.12	7.01	13.58	11.78	30.61
Growth Score	B	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	3.06%	3.05%	10.88%	16.31%	-0.23%	-4.52%
Proj. EPS Growth (F1/F0)	-10.32%	9.27%	-6.33%	4.63%	-1.46%	-2.24%
Curr. Cash Flow Growth	25.16%	5.61%	5.92%	30.84%	0.06%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	9.30%	7.31%	8.55%	9.17%	8.77%	-1.19%
Current Ratio	0.29	0.44	1.23	0.29	0.34	0.38
Debt/Capital	8.23%	18.73%	43.90%	20.32%	20.04%	20.65%
Net Margin	25.20%	7.61%	11.13%	10.85%	10.21%	7.61%
Return on Equity	6.97%	8.18%	16.47%	16.05%	8.69%	9.61%
Sales/Assets	0.32	0.32	0.55	0.38	0.21	0.29
Proj. Sales Growth (F1/F0)	2.61%	0.00%	-1.35%	1.67%	-1.42%	0.67%
Momentum Score	A	-	-	A	C	F
Daily Price Chg	-12.46%	1.34%	1.10%	-1.21%	3.64%	1.36%
1 Week Price Chg	-8.47%	-3.88%	-1.74%	-3.32%	-12.43%	-4.04%
4 Week Price Chg	-4.82%	2.29%	11.80%	11.02%	-1.15%	4.97%
12 Week Price Chg	-32.28%	-21.52%	-17.28%	-15.10%	-28.45%	-21.34%
52 Week Price Chg	-25.34%	-22.69%	-10.69%	2.81%	-23.96%	-27.45%
20 Day Average Volume	973,030	136,947	2,660,864	2,210,348	2,909,361	1,945,171
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.71%	-5.94%	-5.09%
(F1) EPS Est 4 week change	-2.16%	-5.21%	-6.46%	6.32%	-8.36%	-8.21%
(F1) EPS Est 12 week change	-1.31%	-8.14%	-12.81%	6.20%	-9.02%	-9.48%
(Q1) EPS Est Mthly Chg	-6.99%	-3.92%	-10.84%	1.96%	-23.34%	-18.03%

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	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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