

## Cincinnati Financial(CINF)

**\$79.81** (As of 07/30/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

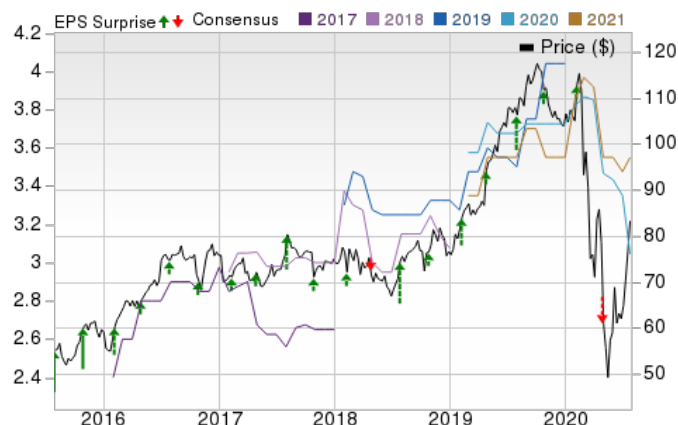
Growth: B

Momentum: B

### Summary

Cincinnati Financial's bottom line in the second quarter beat estimates. The company continues to grow premiums through a disciplined expansion of Cincinnati Re that contributes to the overall earnings. Commitment toward executing its strategic initiatives will help improve pricing precision. It is focused on earning new business through agencies and believes agent-focused business model will drive long term premium growth. It boasts a solid capital position based on which it engages in returning value to shareholders. Low leverage, generation, favorable reserve release should drive its growth. Consistent cash flow and sufficient cash balances to continue boosting liquidity. Its shares have underperformed the industry year to date. However, exposure to cat loss makes earnings volatile. Higher expenses can also put strain on margin expansion.

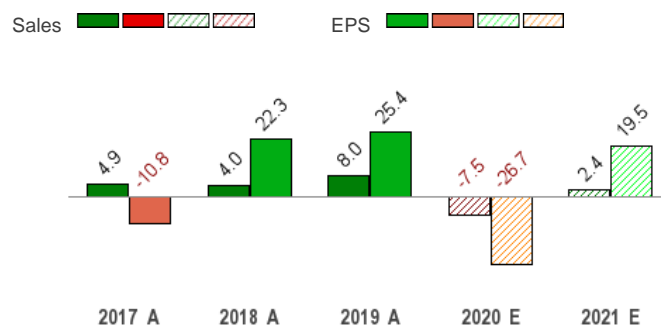
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$118.19 - \$46.07
20 Day Average Volume (sh)	1,219,857
Market Cap	\$12.8 B
YTD Price Change	-24.1%
Beta	0.51
Dividend / Div Yld	\$2.40 / 3.0%
Industry	<a href="#">Insurance - Property and Casualty</a>
Zacks Industry Rank	Bottom 30% (176 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-8.1%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	22.2
P/E F1	25.9
PEG F1	NA
P/S TTM	1.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,448 E	1,475 E	1,499 E	1,524 E	5,945 E
2020	1,626 A	1,654 A	1,422 E	1,430 E	5,805 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	\$1.08 E	\$0.65 E	\$0.78 E	\$1.18 E	\$3.68 E
2020	\$0.84 A	\$0.44 A	\$0.71 E	\$1.11 E	\$3.08 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 07/30/2020. The reports text is as of 07/31/2020.

## 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:

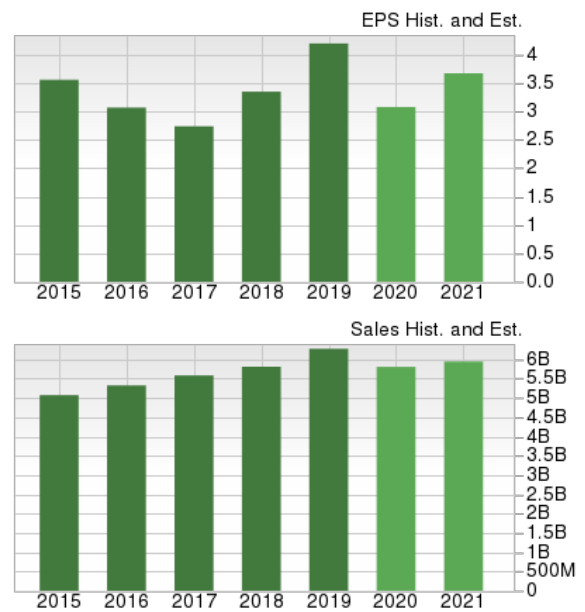
**Commercial Lines Insurance segment (61.2% of 2019 revenues)** provides property and casualty insurance through five commercial business lines – Commercial casualty, Commercial property, Commercial auto, Workers' compensation and other commercial lines.

**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.



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## Reasons To Buy:

- ▲ Shares of Cincinnati Financial have lost 24.1% year to date, wider than the industry's decline of 14.6%. 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 half of 2020, total revenues grew 6% 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 half of 2020, net written premiums grew 8% year over year driven by strong renewal pricing 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 half of 2020, total revenues grew 20% year over year, aided by 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 2020, it plans to appoint approximately 125 independent agencies that offer most of the property casualty insurance products. 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 the first half 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% 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.

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## 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. Significant catastrophic events in the near future might widen the company's loss further, keeping the combined ratio under pressure. The company incurred \$231 million of catastrophe-related losses, plus \$65 million of pandemic-related loss and expense effects, resulted in an underwriting loss of \$41 million in the second quarter. Combined ratio deteriorated 660 bps in the second quarter of 2020. Exposure to cat occurrences will always remain a concern as natural disasters can potentially affect results.
- ▼ Cincinnati Financial's debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$967 million, up 9.3% from the 2019-end level. However, as of Jun 30, 2020 the company's total debt/total capital ratio of 10.4 was higher than 8.9 at 2019-end. The company's cash and cash equivalents of \$706 million as of Jun 30, 2020 are not sufficient for the company to meet its debt obligations. Also, the company's times interest earned of 12.9 as on Jun 30, 2020 was 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 half of 2020, expenses increased 13.9% due to higher insurance losses and contract holders' benefits plus underwriting, acquisition and insurance expenses. The rise in expenses resulted in net margin contraction of 970 bps in the second quarter of 2020.

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 Financial Q2 Earnings & Revenues Beat

Cincinnati Financial reported second-quarter 2020 operating income of 44 cents per share, which beat the Zacks Consensus Estimate by 7.3%. However, the bottom line decreased 48.2% year over year.

The company's results reflected higher net written premiums, which boosted revenues across all its segments, offset by higher catastrophe losses and expenses.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	0.82%
EPS Surprise	7.32%
Quarterly EPS	0.44
Annual EPS (TTM)	3.59

### Operational Update

Total operating revenues in the quarter under review were \$1.7 billion, up 6.8% year over year. This improvement was driven by higher premiums earned and increase in investment income. Revenues surpassed the Zacks Consensus Estimate by 0.8%.

Net written premiums increased 6% year over year to \$1.6 billion, owing to an increase in agency renewal written premiums and other written premiums.

Total benefits and expenses of Cincinnati Financial increased 13.4% year over year to \$1.6 billion, primarily due to higher insurance loss and contract holders' benefits, increased underwriting, acquisition and insurance expenses plus interest expense and other operating expenses.

Cincinnati Financial witnessed underwriting loss of \$41 million against underwriting gain of \$48 million in the year-earlier period, primarily due to higher catastrophe losses of \$231 million and \$65 million of pandemic-related loss and expense effects.

Combined ratio — a measure of underwriting profitability — deteriorated 660 basis points (bps) year over year to 103.1%.

### Quarterly Segment Update

**Commercial Lines Insurance:** Total revenues of \$871 million grew 5.7% year over year. This upside was primarily driven by solid premiums earned. Underwriting profit of \$8 million dropped 33.3% year over year. Combined ratio deteriorated 50 bps year over year to 99.1%.

**Personal Lines Insurance:** Total revenues of \$365 million rose 4.6% year over year owing to 5% increase in premiums earned. The segment reported underwriting loss of \$43 million, against the year-ago profit of \$5 million. Combined ratio deteriorated 1340 bps year over year to 112.3%.

**Excess and Surplus Lines Insurance:** Total revenues of \$78 million rose 16% year over year, aided by 16% higher earned premiums. The segment's underwriting loss was \$1 million against the year-ago profit of \$17 million. Combined ratio deteriorated 2590 bps year over year to 102%.

**Life Insurance:** Total revenues were \$120 million, up 14% year over year, aided by 18% higher earned premiums. Total benefits and expenses increased 9.5% year over year to \$104 million due to higher contract holders' benefits incurred and underwriting expenses.

### Financial Update

As of Jun 30, 2020, Cincinnati Financial had total assets worth \$25.5 billion, up nearly 0.2% from the level at 2019 end.

Cincinnati Financial's debt-to-capital ratio was 8.9% as of Jun 30, 2020, up 120 bps from end of 2019.

As of Jun 30, 2020, Cincinnati Financial's book value per share was at \$57.56, down 5% from 2019 end.

## Recent News

### Cincinnati Financial Estimates Q2 Catastrophe Loss – Jul 14, 2020

Cincinnati Financial estimates pretax catastrophe losses of approximately \$231 million in the second quarter of 2020. Property casualty combined ratio is expected between 102% and 104%.

The company estimates net written premium growth between 5% and 6% for the second quarter of 2020.

## Valuation

Cincinnati Financial shares are down nearly 24.1% and 24.9% 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 14.6% and 18.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7% and 11.6%, respectively.

The S&P 500 index is up 1% in the year-to-date period and 10.4% in the past year.

The stock is currently trading at 1.6x trailing 12-month book value, which compares to 1.30x for the Zacks sub-industry, 2.42x for the Zacks sector and 4.46x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.09x and as low as 0.97x, with a 5-year median of 1.63x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 1.68x 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	1.6	1.30	2.42	4.46
	5-Year High	2.09	1.67	2.91	4.56
	5-Year Low	0.97	0.93	1.72	2.83
	5-Year Median	1.63	1.46	2.53	3.72
P/S F12M	Current	1.99	1.64	6.04	3.59
	5-Year High	2.99	11.26	6.66	3.6
	5-Year Low	1.2	1.39	4.96	2.53
	5-Year Median	2.1	1.85	6.06	3.02
P/E F12M	Current	23.91	24.95	16.59	22.69
	5-Year High	31.47	31.55	16.59	22.69
	5-Year Low	13.88	21.01	11.59	15.25
	5-Year Median	24.51	25.42	14.16	17.52

As of 07/30/2020

## Industry Analysis Zacks Industry Rank: Bottom 30% (176 out of 253)



## Top Peers

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

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	-	-	3	3	4
VGM Score	B	-	-	A	C	B
Market Cap	12.84 B	1.15 B	22.57 B	28.92 B	58.68 B	29.31 B
# of Analysts	2	2	14	8	6	8
Dividend Yield	3.01%	1.36%	1.83%	2.35%	2.40%	2.93%
Value Score	B	-	-	A	B	A
Cash/Price	0.04	0.25	0.07	0.20	0.09	0.22
EV/EBITDA	5.13	5.32	12.96	4.40	10.30	3.35
PEG Ratio	NA	2.04	3.04	1.12	1.91	2.04
Price/Book (P/B)	1.39	1.07	3.13	1.30	1.07	1.09
Price/Cash Flow (P/CF)	17.02	10.29	12.61	6.78	11.03	3.79
P/E (F1)	25.35	13.80	22.06	8.41	19.05	13.59
Price/Sales (P/S)	1.62	0.75	2.42	0.66	1.64	0.93
Earnings Yield	3.86%	6.24%	4.31%	11.88%	5.25%	7.36%
Debt/Equity	0.10	0.23	0.75	0.30	0.25	0.26
Cash Flow (\$/share)	4.69	3.12	6.94	13.58	11.78	30.61
Growth Score	B	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	3.24%	3.24%	10.85%	19.27%	-0.23%	-5.11%
Proj. EPS Growth (F1/F0)	-26.67%	-9.42%	-7.75%	4.92%	-32.51%	-11.11%
Curr. Cash Flow Growth	25.16%	3.79%	5.39%	30.84%	0.06%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	9.30%	4.78%	8.55%	9.17%	8.77%	-1.19%
Current Ratio	0.28	0.45	1.31	0.31	0.33	0.40
Debt/Capital	9.46%	19.59%	44.32%	21.53%	20.93%	20.74%
Net Margin	25.20%	4.25%	10.44%	9.38%	6.10%	5.81%
Return on Equity	6.46%	6.57%	14.73%	17.53%	5.98%	7.20%
Sales/Assets	0.32	0.31	0.52	0.37	0.20	0.28
Proj. Sales Growth (F1/F0)	-7.48%	0.00%	-1.95%	-0.44%	2.59%	-0.03%
Momentum Score	B	-	-	C	F	C
Daily Price Chg	-4.35%	-1.03%	-0.92%	-2.04%	-1.47%	-0.79%
1 Week Price Chg	8.57%	0.13%	0.37%	2.93%	-0.76%	-0.74%
4 Week Price Chg	23.03%	3.31%	4.14%	-2.14%	3.53%	3.09%
12 Week Price Chg	45.08%	11.56%	12.21%	-8.70%	31.33%	21.01%
52 Week Price Chg	-24.91%	-18.59%	-1.73%	-12.20%	-14.00%	-20.48%
20 Day Average Volume	1,219,857	106,676	1,887,986	2,170,634	1,587,494	1,333,501
(F1) EPS Est 1 week change	1.15%	0.00%	0.00%	0.00%	-1.51%	0.91%
(F1) EPS Est 4 week change	-8.06%	0.00%	0.38%	2.50%	-30.43%	-7.07%
(F1) EPS Est 12 week change	-11.15%	-12.38%	-0.07%	0.27%	-31.51%	-9.07%
(Q1) EPS Est Mthly Chg	-5.33%	0.00%	0.16%	9.45%	-1.34%	53.83%

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## 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.

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### 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	B
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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### Disclosures

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