

Cincinnati Financial(CINF)

\$104.44 (As of 12/30/19)

Price Target (6-12 Months): **\$120.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 10/30/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

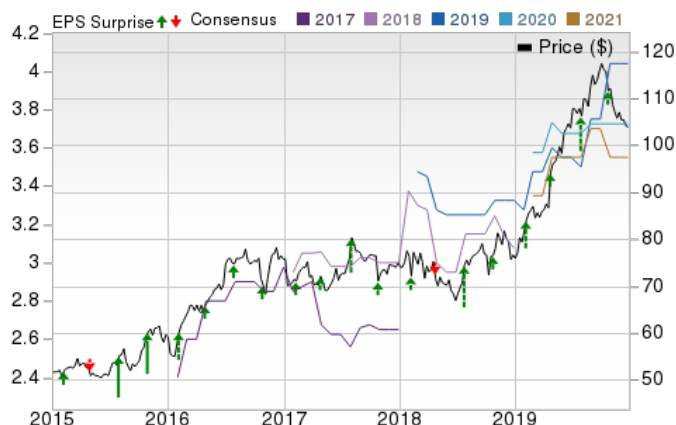
Growth: C

Momentum: D

Summary

Shares of Cincinnati Financial have outperformed the industry in a year's time. The company is appointing agencies and expanding product offerings to ramp up its business. 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. Consistent cash flow and sufficient cash balances continue to boost liquidity. 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. Continued turmoil in group benefits associated with Affordable Care Act concerns.

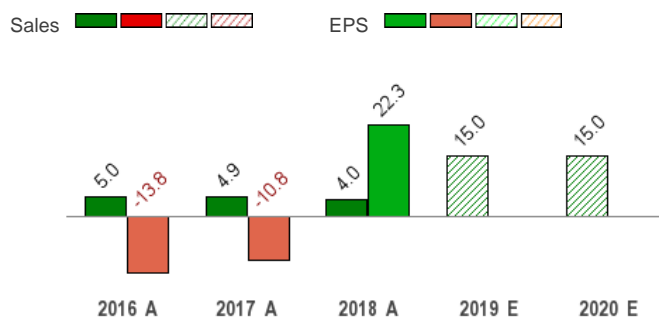
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$118.19 - \$74.26
20 Day Average Volume (sh)	527,048
Market Cap	\$17.1 B
YTD Price Change	34.9%
Beta	0.58
Dividend / Div Yld	\$2.24 / 2.1%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 37% (159 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	26.4
P/E F1	25.9
PEG F1	NA
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,682 E
2019	1,496 A	1,549 A	1,614 A		6,680 E
2018	1,415 A	1,453 A	1,457 A	1,484 A	5,809 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.08 E	\$1.05 E	\$0.74 E	\$0.84 E	\$4.04 E
2019	\$1.05 A	\$0.85 A	\$1.08 A	\$0.90 E	
2018	\$0.72 A	\$0.81 A	\$0.84 A	\$0.98 A	\$3.35 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 12/30/2019. The reports text is as of 12/31/2019.

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:

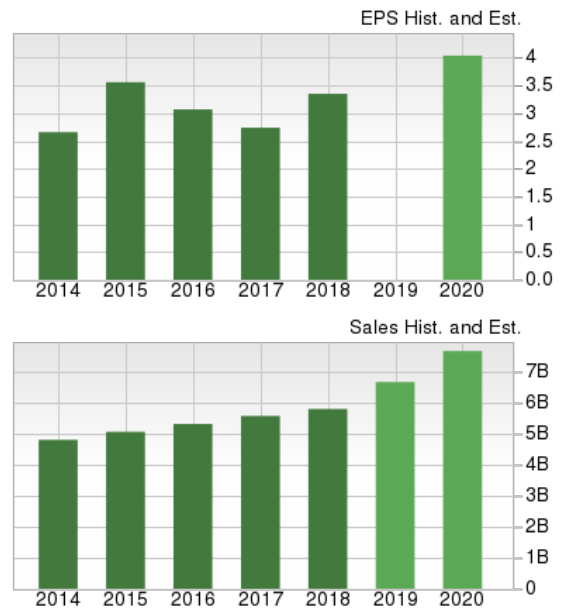
Commercial Lines Insurance segment (59.5% of 2018 revenues) provides property and casualty insurance through five commercial business lines – Commercial casualty, Commercial property, Commercial auto, Workers' compensation, and Other commercial lines.

Personal Lines Insurance segment (24.7%) functions through three separate lines of business – Personal auto, Home owners and other personal lines.

Life Insurance segment (4.6%) 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 (4.3%) 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. The stock has rallied 34.9% versus the industry's increase of 11.9%. 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 the first nine months of 2019 on several growth initiatives and a gradual increase in insurance rates. Additionally, the company has implemented the use of predictive analytics to improve its pricing precision while leveraging local relationships with its agents.
- ▲ The company's net written premiums in 2018 witnessed a five-year CAGR of 5.3%, primarily attributable to premium growth initiatives, price increases and a higher level of insured exposures. The momentum continued through the first nine months of 2019 as the metric rose 9%. 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 the first nine months of 2019, the company appointed 146 independent agencies, which cater to most or all its property and casualty insurance and personal lines products. In 2019, the company plans to further appoint about 100 additional agencies offering the same services and 80 more agencies to market only the company's personal lines products, mainly the ones with a high net worth focus. 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%. It grew 4% in the first nine months of 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. In December 2018, the company announced a special dividend of 50 cents per share and during the fourth quarter of 2018, approved a 5.7% dividend hike. This increase represents the company's confidence in its strong capital, financial and liquidity flexibility as well as its operational performance. Management has been consistently hiking the company's annual dividend for the past 59 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. Given a benign catastrophe environment, the company witnessed 270 basis points improvement in combined ratio in the first nine months of 2019. 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, evident from a five-year CAGR of 7.2%, mainly due to a rise in insurance loss and policyholder benefits as well as underwriting, acquisition and insurance expenses. Expenses increased 5.7% in the first nine months of 2019. The company should strive to generate a higher revenue growth rate than the rise in expenses, else margin could be dented.
 - Cincinnati Financial's life insurance segment could be hurt by a still tepid U.S. economic recovery, adverse regulatory developments associated with Universal Life products with secondary guarantees, and continued turmoil in group benefits associated with the Affordable Care Act.
 - Valuation remains stretched at current level. The company's price-to-book ratio of 1.82, the best multiple for valuing insurers, is higher than the industry range of 1.42. The shares are trading near the high end of its 5-year traded range of 1.24X-2.09X and higher than the median of 1.61X.
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Last Earnings Report

Cincinnati Financial Q3 Earnings Top, Revenues Up Y/Y

Cincinnati Financial reported third-quarter 2019 operating income of \$1.08 per share, which beat the Zacks Consensus Estimate by 16.1%. Also, the bottom line improved 28.6% year over year.

Notably, the results reflected price increases and premium growth initiatives.

Operational Update

Total operating revenues in the quarter under review were \$1.6 billion, up 10.8% year over year. This improvement was driven by 11% higher premiums earned and a 5% rise in investment income.

Net written premiums increased 8% from the prior-year quarter, reflecting price increases and premium growth initiatives.

Total benefits and expenses of Cincinnati Financial increased 8.4% year over year to \$1.4 billion, primarily due to higher insurance loss and contract holders' benefits plus underwriting, acquisition and insurance expenses plus other operating expenses.

Combined ratio — a measure of underwriting profitability — improved 260 basis points (bps) year over year to 94.2%.

Quarterly Segment Update

Commercial Lines Insurance: Total revenues of \$835 million grew 4% year over year. This upside was primarily driven by solid premiums earned. Underwriting profit of \$56 million surged 65% year over year. The combined ratio also improved 250 bps year over year to 93.4%.

Personal Lines Insurance: Total revenues of \$355 million rose 5% year over year owing to 5% increase in premiums earned. The segment generated underwriting profit of \$3 million, which marked a rebound from the year-ago loss of \$9 million. The combined ratio improved 340 bps year over year to 99.6%.

Excess and Surplus Lines Insurance: Total revenues of \$73 million rose 22% year over year, aided by 20% higher earned premiums. However, the segment's underwriting profit of \$12 million dropped 29% year over year. Moreover, the combined ratio deteriorated 1120 bps year over year to 83.2%.

Life Insurance: Total revenues were \$107 million, up 6% year over year. Total benefits and expenses increased 10% year over year to \$91 million.

Financial Update

As of Sep 30, 2019, cash and total investments were \$19.1 billion, up 13.9% from 2018-end.

Total assets of \$24.7 billion increased 12.8% from 2018-end.

Total debt amounted to \$826 million, up 0.7% from 2018-end.

Cincinnati Financial's debt-to-capital ratio was 8.1% as of Sep 30, 2019, improving 140 bps from the end of 2018.

As of Sep 30, 2019, its book value per share was at a record high of \$57.37, up 19.3% from 2018-end.

Quarter Ending 09/2019

Report Date	Oct 24, 2019
Sales Surprise	NA
EPS Surprise	16.13%
Quarterly EPS	1.08
Annual EPS (TTM)	3.96

Recent News

Cincinnati Financial Declares Quarterly Dividend — Nov 15, 2019

The board of directors of Cincinnati Financial recently declared a quarterly cash dividend of 56 cents per share. The dividend will be paid out on Jan 15, 2020 to shareholders of record as of Dec 19, 2019.

Cincinnati Financial Announces Dividend - Aug 9, 2019

The board of directors of Cincinnati Financial announced quarterly dividend of 56 cents to shareholders of Sep 18, 2019. The dividend was paid on Oct 15, 2019.

Valuation

Cincinnati Financial shares are up 34.9% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Zacks Finance sector are up 11.9% and 18.8%, respectively.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 1.82X trailing 12-month book value, which compares to 1.42X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.42X 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 \$120 price target reflects 2.09X trailing 12- month 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	1.82	1.42	2.83	4.42
	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	2.50	3.60
P/S F12M	Current	2.6	1.59	6.56	3.41
	5-Year High	2.8	11.30	6.61	3.4
	5-Year Low	1.85	1.55	5.20	2.54
	5-Year Median	2.1	1.93	6.03	3.00
P/E F12M	Current	28.04	26.36	14.8	18.77
	5-Year High	31.47	31.55	16.21	19.34
	5-Year Low	18.75	22.77	12.01	15.17
	5-Year Median	24.32	25.67	13.98	17.43

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 253)



Top Peers

Markel Corporation (MKL)	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
W.R. Berkley Corporation (WRB)	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	C	B
Market Cap	17.06 B	1.93 B	23.80 B	36.21 B	70.39 B	35.23 B
# of Analysts		2	13			
Dividend Yield	2.14%	1.02%	1.78%	1.79%	1.93%	2.40%
Value Score	D	-	-	A	B	A
Cash/Price	0.05	0.17	0.04	0.16	0.06	0.14
EV/EBITDA	46.76	9.32	13.88	11.17	12.72	4.32
PEG Ratio	NA	2.06	2.13	1.33	1.50	1.56
Price/Book (P/B)	1.82	1.27	3.33	1.57	1.29	1.38
Price/Cash Flow (P/CF)	27.77	13.41	13.55	11.45	13.41	4.75
P/E (F1)	25.85	15.52	19.62	11.09	15.02	14.42
Price/Sales (P/S)	2.63	1.07	2.66	0.85	2.03	1.13
Earnings Yield	3.87%	6.34%	5.09%	9.02%	6.66%	6.94%
Debt/Equity	0.09	0.21	0.71	0.29	0.24	0.26
Cash Flow (\$/share)	3.76	3.05	6.94	9.76	11.58	28.75
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	2.58%	-0.16%	10.48%	13.91%	-1.51%	-5.81%
Proj. EPS Growth (F1/F0)	20.60%	20.09%	6.14%	24.88%	9.57%	5.90%
Curr. Cash Flow Growth	20.00%	12.66%	14.75%	5.36%	12.66%	8.43%
Hist. Cash Flow Growth (3-5 yrs)	3.59%	7.23%	8.93%	1.93%	8.90%	-1.60%
Current Ratio	0.29	0.44	1.24	0.30	0.31	0.38
Debt/Capital	8.63%	17.79%	42.92%	20.23%	19.94%	20.39%
Net Margin	14.18%	5.34%	11.06%	6.57%	10.48%	7.57%
Return on Equity	7.44%	6.81%	17.10%	13.83%	8.60%	9.13%
Sales/Assets	0.27	0.31	0.54	0.37	0.20	0.29
Proj. Sales Growth (F1/F0)	0.00%	0.00%	2.49%	-10.56%	-4.54%	2.99%
Momentum Score	D	-	-	A	F	C
Daily Price Chg	0.52%	0.03%	0.21%	-0.09%	-0.33%	-0.23%
1 Week Price Chg	-0.22%	-0.63%	1.46%	0.26%	0.18%	0.27%
4 Week Price Chg	-1.13%	0.90%	1.98%	0.57%	3.69%	0.91%
12 Week Price Chg	-9.95%	-1.70%	9.78%	4.01%	-2.72%	-4.65%
52 Week Price Chg	34.90%	10.57%	28.47%	35.27%	20.23%	13.98%
20 Day Average Volume	527,048	122,084	1,778,443	1,648,116	1,345,426	1,178,174
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.34%	0.00%	0.00%
(F1) EPS Est 12 week change	7.73%	-1.85%	0.12%	5.70%	-0.53%	-10.23%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	1.43%	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	D
Growth Score	C
Momentum Score	D
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.

Disclosures

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