

CNA Financial(CNA)

\$44.55 (As of 01/13/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

CNA Financial is one of the versatile P&C insurers and has been maintaining a good track record of its combined ratio over the past any quarters, thus leading to underwriting profitability. Maintaining a robust capital and liquidity shields the company from market volatility and enables the company to retain financial strength and flexibility needed to pursue new opportunities. Stable fixed income returns and higher limited partnership returns should continue to support investment results. It deploys capital effectively to enhance shareholders value. However, the shares of CNA Financial have underperformed the industry in a year's time. The company is exposed to catastrophe loss which poses an inherent risk to the P&C business. Also, elevated expenses due to higher net incurred claims and higher costs weigh on margin expansion.

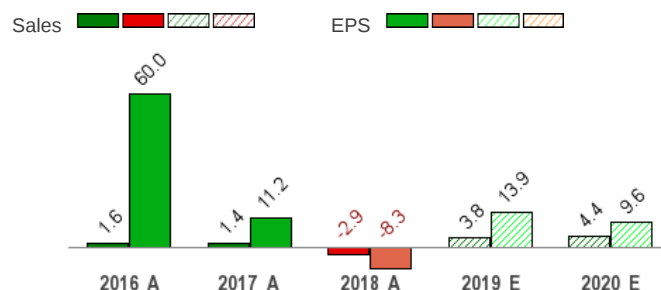
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.47 - \$42.28
20 Day Average Volume (sh)	199,307
Market Cap	\$12.1 B
YTD Price Change	-0.6%
Beta	0.79
Dividend / Div Yld	\$1.40 / 3.1%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 32% (81 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.5%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/10/2020
Earnings ESP	9.3%
P/E TTM	13.4
P/E F1	11.5
PEG F1	2.3
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					9,946 E
2019	2,383 A	2,343 A	2,386 A	2,414 E	9,526 E
2018	2,523 A	2,327 A	2,622 A	2,217 A	9,179 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.96 E	\$0.96 E	\$0.87 E	\$0.90 E	\$3.87 E
2019	\$1.17 A	\$1.08 A	\$1.16 A	\$0.90 E	\$3.53 E
2018	\$1.03 A	\$0.99 A	\$1.17 A	-\$0.08 A	\$3.10 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Headquartered in Chicago, IL, CNA Financial Corporation was established in 1853. It was incorporated in 1967. The company operates as a P&C insurer. It offers commercial P&C insurance products, mainly across the United States.

CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company, Western Surety Company, CNA Insurance Company Limited and Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy). Loews Corporation acts as the parent company, with 89% stake in its subsidiary (as on Dec 31, 2018), CNA Financial. The company's P&C field structure consists of 49 underwriting locations across the United States.

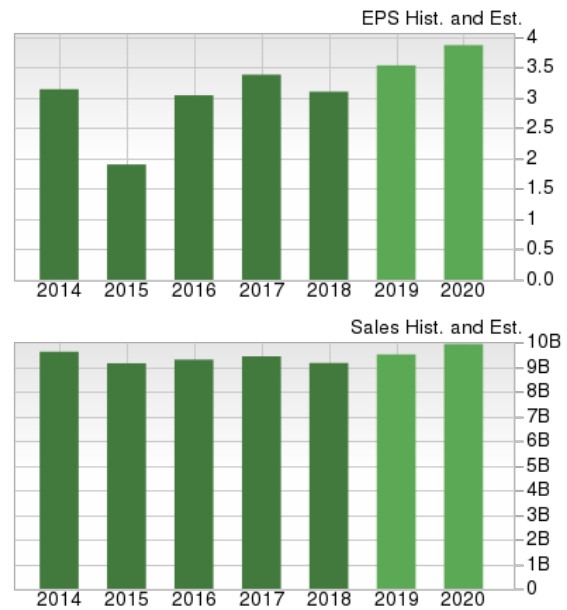
CNA Financial classifies its operations through three core and two non-core segments. The three core segments are Specialty, Commercial and International. The two non-core segments are Life & Group Non-Core and Corporate & Other Non-Core.

Specialty (37.4% of 2018 Net Earned Premium) – This segment offers management and professional liability and other coverage through P&C products and services. A network of brokers, independent agencies and managing general underwriters are utilized for this purpose.

Commercial (41.7%) – This segment has tied up with an independent agency distribution system and a network of brokers to market a wide range of P&C insurance products and services. These products and services will serve small, middle-market and large businesses and organizations.

International (13.7%) – This segment offers P&C insurance, and specialty coverage on a global basis. Such offerings are made available through its operations in Canada, the United Kingdom, Continental Europe and Singapore as well as through its presence at Lloyd's of London.

Life & Group Non-Core (7.2%) – This segment mainly comprises of the results of the individual and group long-term care businesses.



Reasons To Buy:

- ▲ **Price Impact** – Shares of CNA Financial have lost 1.5% in a year's time, underperforming the industry's improved of 15.6%. Nonetheless, the company's solid fundamentals should help the shares gain momentum.
- ▲ **Combined Ratio** – CNA Financial has been witnessing substantial improvement in the combined ratio of its P&C business over the past few years. A company's combined ratio reflects its underwriting profitability. The insurer has a history of maintaining the combined ratio at favorable levels — even in a tough operating environment — which along with sustained better pricing indicates its superior underwriting discipline.

CNA Financial's improving combined ratio reflects prudent discipline amid tough operating environment. Solid capital and liquidity position continues to boost investors' confidence.

- ▲ **Improving Net Investment Income** – After witnessing a declining net investment income owing to low interest rate environment, CNA Financial has been posting improved results from 2016 onward. In the first nine months of 2019, net investment income, after tax, increased 5.2% year over year. We expect a better performance in the near term on the back of stable fixed income returns and higher limited partnership returns.

- ▲ **Robust Capital Position** – CNA Financial boasts a solid capital position, backed by a strong liquidity. The company remains confident about its liquidity position being robust enough to fund its current and expected working capital and debt obligation needs and does not expect this to change in the near term. Maintaining a robust capital and liquidity position shields the company from market volatility and enables it to retain the financial strength and flexibility needed to pursue new opportunities, consistent with its long-term strategy.

Its debt-to-capital ratio has also exhibited improvement over the last several years while staying below the 20-25% target. The current debt-to-capital ratio is 18.1%, which is lower than the industry average of 20.4%. We expect to see improvement going forward, given the company's strong cash balance, which is likely to meet debt burden and reduce debt levels. A low reliance on debt provides adequate financial flexibility to the company to manage its business and invest in its globally diversified platforms.

- ▲ **Strong Dividend History** – Strong balance sheet and cash flows enable CNA Financial to engage in shareholder-friendly moves like dividend hikes. The company's quarterly dividend payment has witnessed a five-year CAGR (2013-2018) of 11.8%. The current dividend yield of the company is 3.1%, better than the industry average of 0.4%. On the back of a disciplined execution, denoted by strong underwriting results and confidence in future earnings performances, the company hiked its dividend over the past couple of years. Thus, the company remains committed to returning more value to shareholders.
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Reasons To Sell:

- ▼ **Exposure to Catastrophe Loss** – CNA Financial is a property and casualty (P&C) insurer and hence, remains exposed to catastrophe loss, stemming from natural disasters and weather-related events. Combined ratio deteriorated 340 basis points year over year to 97.1% in the first nine months of 2019. Catastrophe losses pose an inherent risk to the P&C insurance business, inducing volatility to the company's results. Exposure to cat loss is a headwind as natural disasters are unpredictable and hamper results.
 - ▼ **Rising Expenses to Hurt Margin Expansion** – CNA Financial has been witnessing rising expenses over the past few years, primarily due to increasing net incurred claims and benefits and amortization of deferred acquisition costs. The expense ratio in the first nine months of 2019 expanded 10 basis points. Moreover, the company's net operating income has been affected by this increasing trend, which in turn, might hurt its overall profitability.
 - ▼ **Profitability** – Return on assets (ROA), a measure of how the company is utilizing its assets at disposal, underperformed the industry average. The company's ROA of 1.5% is lower than the industry average of 3.3%.
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Exposure to cat loss inducing underwriting volatility and rising expenses due to higher net incurred claims and benefits and amortization of deferred acquisition costs weighing on margin are concerns.

Last Earnings Report

CNA Financial Q3 Earnings Beat Estimates, Down Y/Y

CNA Financial Corporation's third-quarter 2019 core earnings of \$1.16 per share, beat the Zacks Consensus Estimate by 11.5%. However, the bottom line decreased 0.8% year over year.

The improvement stemmed from improved net written premiums, increase in new business and favorable rate.

Behind Third-Quarter Headlines

Net written premiums at Property & Casualty Operations improved 8% year over year to \$1.7 billion driven by rate increase and higher new business.

Net investment income almost remained unchanged year over year at \$399 million.

Combined ratio deteriorated 340 basis points year over year to 97.6%.

Book value as of Sep 30, 2019 was \$44.66 per share, up 8.1% from Dec 31, 2018.

Core return on equity was 3.4%, down 710 basis points.

Segment Results

Specialty's net written premiums rose nearly 6% year over year to \$732 million, driven by strong retention and favorable rate. Combined ratio deteriorated 280 bps to 89.8%.

Commercial's net written premiums increased 11% year over year to \$775 million, driven by higher new business and favorable rate. Combined ratio deteriorated 420 bps to 101.6%.

International's net written premiums increased 3% year over year to \$201 million driven by change in the timing of ceded reinsurance contract renewals. Combined ratio deteriorated 350 bps to 107.4%.

Life & Group's total operating revenues were \$336 million, up 1.2% year over year. Core loss was \$122 million against the year-ago income of \$32 million.

Corporate & Other's core loss of \$17 million was narrower than loss of \$20 million incurred in the prior-year period.

Dividend Update

CNA Financial's board of directors approved a quarterly dividend of 35 cents to be paid out on Dec 2, 2019 to stockholders of record as of Nov 11.

Quarter Ending 09/2019

Report Date	Oct 28, 2019
Sales Surprise	0.34%
EPS Surprise	11.54%
Quarterly EPS	1.16
Annual EPS (TTM)	3.33

Valuation

CNA Financial shares are down 1.5% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 15.6% and 14.4%, respectively.

The S&P 500 index are up 25% in the past year.

The stock is currently trading at 1X trailing 12-month book value, which compares to 1.43X for the Zacks sub-industry, 2.84X for the Zacks sector and 4.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.23X and as low as 0.65X, with a 5-year median of 1.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 1.05X trailing 12- month book value.

The table below shows summary valuation data for CNA

Valuation Multiples -CNA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1	1.43	2.84	4.49
	5-Year High	1.23	1.67	2.89	4.49
	5-Year Low	0.65	1.26	1.83	2.85
	5-Year Median	1.02	1.47	2.5	3.61
P/S F12M	Current	1.21	1.67	6.53	3.52
	5-Year High	1.58	11.26	6.61	3.52
	5-Year Low	0.81	1.55	5.2	2.54
	5-Year Median	1.19	1.92	6.04	3
P/E F12M	Current	11.58	26.57	14.95	19
	5-Year High	17.56	31.55	16.21	19.34
	5-Year Low	8.96	22.77	12.01	15.17
	5-Year Median	11.41	25.67	13.98	17.44

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 254)



Top Peers

Market Corporation (MKL)	Outperform
W.R. Berkley Corporation (WRB)	Outperform
American Financial Group, Inc. (AFG)	Neutral
Chubb Limited (CB)	Neutral
Cincinnati Financial Corporation (CINF)	Neutral
First American Financial Corporation (FAF)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
Alleghany Corporation (Y)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CNA Neutral	X Industry	S&P 500	CB Neutral	CINF Neutral	WRB Outperform
VGM Score	C	-	-	C	C	C
Market Cap	12.10 B	1.92 B	24.31 B	68.39 B	17.17 B	12.51 B
# of Analysts	3	2	13	7	3	5
Dividend Yield	3.14%	1.02%	1.76%	1.99%	2.13%	0.65%
Value Score	B	-	-	B	D	D
Cash/Price	0.15	0.18	0.04	0.06	0.05	0.12
EV/EBITDA	11.65	9.37	14.12	12.40	47.05	12.18
PEG Ratio	2.30	1.68	2.05	1.38	NA	2.58
Price/Book (P/B)	1.00	1.25	3.34	1.25	1.83	2.04
Price/Cash Flow (P/CF)	14.16	13.71	13.66	13.03	27.94	19.33
P/E (F1)	11.51	13.71	18.82	13.75	27.53	23.18
Price/Sales (P/S)	1.16	1.04	2.64	1.97	2.65	1.59
Earnings Yield	8.69%	7.28%	5.29%	7.27%	3.63%	4.32%
Debt/Equity	0.22	0.21	0.72	0.24	0.09	0.38
Cash Flow (\$/share)	3.15	3.05	6.94	11.58	3.76	3.52
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	7.67%	-0.55%	10.56%	-1.51%	2.58%	4.12%
Proj. EPS Growth (F1/F0)	9.44%	7.23%	7.49%	5.91%	-6.15%	-3.55%
Curr. Cash Flow Growth	-11.69%	9.94%	14.83%	12.66%	20.00%	50.32%
Hist. Cash Flow Growth (3-5 yrs)	-5.23%	7.23%	9.00%	8.90%	3.59%	3.89%
Current Ratio	0.23	0.44	1.23	0.31	0.29	0.36
Debt/Capital	18.09%	17.79%	42.99%	19.94%	8.63%	27.75%
Net Margin	6.19%	5.34%	11.08%	10.48%	14.18%	8.82%
Return on Equity	7.72%	6.81%	17.16%	8.60%	7.44%	10.60%
Sales/Assets	0.18	0.31	0.55	0.20	0.27	0.31
Proj. Sales Growth (F1/F0)	4.41%	4.99%	4.23%	5.16%	1.05%	5.59%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	0.07%	0.43%	0.73%	-0.06%	0.37%	0.37%
1 Week Price Chg	-1.68%	-0.83%	0.39%	-3.07%	-1.69%	-1.72%
4 Week Price Chg	-1.13%	-0.42%	1.84%	-2.98%	-0.58%	-1.67%
12 Week Price Chg	-6.45%	-0.73%	6.48%	-1.57%	-9.44%	-3.95%
52 Week Price Chg	-0.54%	10.68%	23.15%	15.33%	35.42%	39.51%
20 Day Average Volume	199,307	111,364	1,578,594	1,418,033	528,204	634,350
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.30%	2.46%	0.20%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.30%	2.46%	0.20%
(F1) EPS Est 12 week change	-2.93%	-0.42%	-0.48%	-1.21%	3.85%	1.24%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.52%	0.48%	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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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