Apr 28, 2020

CNA Financial(CNA)

$30.95 (As of 04/27/20)

Price Target (6-12 Months): **$32.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/24/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: B	

Summary

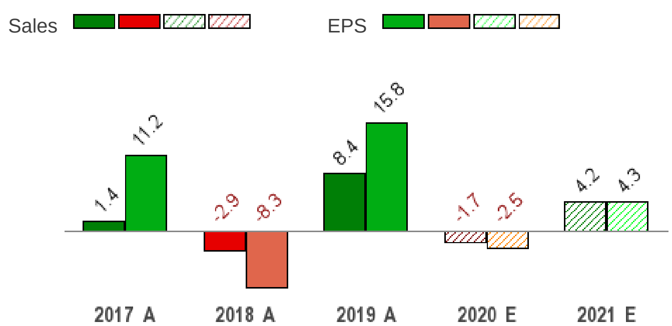
CNA Financial is one of the versatile P&C insurers and has been maintaining a good track record of its combined ratio over the past any quarters, thus leading to underwriting profitability. Stable fixed income returns and higher limited partnership returns should continue to support investment results. The shares of the company have underperformed the industry in a year's time. However, it is exposed to catastrophe loss, which poses an inherent risk to the P&C business. Also, elevated expenses due to rising net incurred claims and benefits, high costs tend to weigh on margin expansion. Its weak capital position with poor cash level remains a concern for the investors. The company's poor return on assets continues to bother.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$51.30 - $26.52**
20 Day Average Volume (sh)	**301,873**
Market Cap	**$8.4 B**
YTD Price Change	**-30.9%**
Beta	**0.93**
Dividend / Div Yld	**$1.48 / 4.8%**
Industry	**Insurance - Property and Casualty**
Zacks Industry Rank	**Bottom 47% (134 out of 253)**
Last EPS Surprise	**6.6%**
Last Sales Surprise	**2.1%**
EPS F1 Est- 4 week change	**-9.7%**
Expected Report Date	**05/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**7.1**
P/E F1	**8.8**
PEG F1	**1.8**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					10,186 E
2020	2,301 E	2,471 E	2,493 E	2,512 E	9,777 E
2019	2,383 A	2,343 A	2,386 A	2,465 A	9,949 A

EPS Estimates

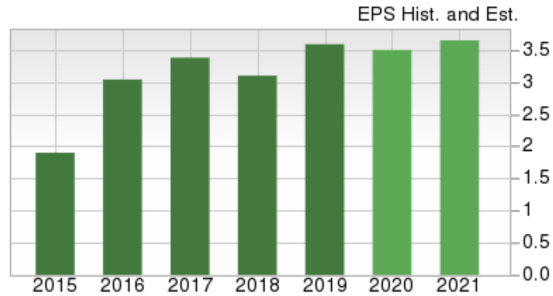
	Q1	Q2	Q3	Q4	Annual*
2021					$3.65 E
2020	$0.56 E	$0.97 E	$1.00 E	$0.98 E	$3.50 E
2019	$1.17 A	$1.08 A	$1.16 A	$0.97 A	$3.59 A

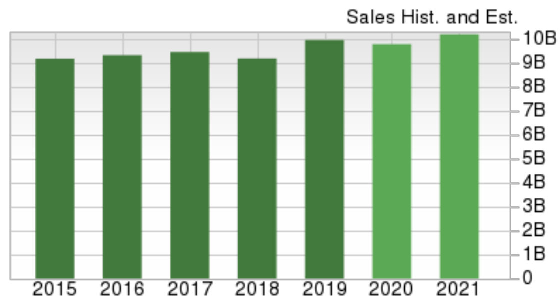
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/27/2020. The reports text is as of 04/28/2020.

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 (37.3% of 2019 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 (42.6%) – 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 (13.1%) – 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%) – 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 33% in a year's time, wider than the industry's decline of 15.9%. Nevertheless, 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 2019, net investment income, after tax, increased 15.1% 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.

▲ **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 five-year CAGR (2014-2019) of 6.96%. The current dividend yield of the company is 4.8%, better than the industry average of 0.5%. 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.

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. 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 2019 expanded 30 basis points. Moreover, the company's net operating income has been affected by this increasing trend, which in turn, might hurt its overall profitability.

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.

- **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 2% is lower than the industry average of 3.1%.

- **Weak Capital Position** – The company's balance sheet position also remains a concern. The net debt is 16.4% of its total capital, which is higher than the industry average of 9.8%. Also, its times interest earned is 10.3x, which is substantially lower than the industry's average of 25.9x. As of Dec 31, 2019, it has cash and cash equivalents of $2.1 billion, much lower than its long-term debt of $2.7 billion. Thus, the company's inadequate financial flexibility remains a concern for investors.

Last Earnings Report

CNA Financial Q4 Earnings Beat Estimates, Rise Y/Y

Quarter Ending	12/2019
Report Date	Feb 10, 2020
Sales Surprise	2.11%
EPS Surprise	6.59%
Quarterly EPS	0.97
Annual EPS (TTM)	4.38

CNA Financial Corporation reported fourth-quarter 2019 core earnings of 97 cents per share, which beat the Zacks Consensus Estimate by 6.6%. In the year-ago quarter the company incurred a loss of 8 cents per share.

The upside can be attributed to improved net written premiums, an increase in new business and favorable rates.

Behind Fourth-Quarter Headlines

Net written premiums at Property & Casualty Operations improved 5.2% year over year to $1.7 billion.

Net investment income improved significantly year over year to $336 million.
Combined ratio improved 980 basis points (bps) year over year to 95.6%.

Book value as of Dec 31, 2019, was $45 per share, up 8.9% from Dec 31, 2018.

Core return on equity was 8.8%, up 950 bps.

Segmental Results

Specialty's net written premiums rose 3.4% year over year to $705 million, driven by favorable rates. Combined ratio improved 300 bps to 88.2%.

Commercial's net written premiums increased 8% year over year to $779 million, driven by higher new business, strong retention and favorable rates. Combined ratio improved 1270 bps to 100.6%.

International's net written premiums increased 2.3% year over year to $262 million driven by strong growth in Canada and Europe. Combined ratio improved 1920 bps to 100.3%.

Life & Group's total operating revenues were $334 million, down 0.9% year over year. Core loss was $4 million against the year-ago income of $7 million.
Corporate & Other's core loss of $68 million was wider than the loss of $46 million incurred in the prior-year period.

Dividend Update

CNA Financial hiked its dividend to 37 cents per share, up from the prior payout of 35 cents. The dividend will be paid out on Mar 12, 2020, to stockholders of record as of Feb 24, 2020.

Valuation

CNA Financial shares are down nearly 31% in the year-to-date period and 33% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 19.4% and 28% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16% and 23.7%, respectively.

The S&P 500 index is down nearly 12.1% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 0.7x trailing 12-month book value, which compares to 1x for the Zacks sub-industry, 1.9x for the Zacks sector and 3.3x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.2x and as low as 0.6x, with a 5-year median of 1x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $32 price target reflects 0.71x 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	0.69	1.07	2.03	3.76
	5-Year High	1.23	1.67	2.90	4.56
	5-Year Low	0.6	0.93	1.71	2.85
	5-Year Median	1.03	1.46	2.52	3.63
P/S F12M	Current	0.85	1.62	4.96	4.81
	5-Year High	1.58	11.26	6.69	4.81
	5-Year Low	0.75	1.55	4.96	2.54
	5-Year Median	1.18	1.89	6.04	3.01
P/E F12M	Current	8.72	22.17	13.82	19.82
	5-Year High	17.56	31.55	16.17	19.82
	5-Year Low	6.95	21.06	11.19	15.19
	5-Year Median	11.35	25.42	13.93	17.45

As of 04/27/2020

Industry Analysis **Zacks Industry Rank:** Bottom 47% (134 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. **(AFG)**	Neutral	3
Chubb Limited **(CB)**	Neutral	3
Cincinnati Financial Corporation **(CINF)**	Neutral	3
First American Financial Corporation **(FAF)**	Neutral	3
Markel Corporation **(MKL)**	Neutral	3
Everest Re Group, Ltd. **(RE)**	Neutral	3
W.R. Berkley Corporation **(WRB)**	Neutral	3
Alleghany Corporation **(Y)**	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty

Industry Peers

	CNA	X Industry	S&P 500	CB	CINF	WRB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	B	D
Market Cap	8.40 B	1.16 B	19.77 B	48.08 B	13.31 B	9.70 B
# of Analysts	1	2	14	8	3	4
Dividend Yield	4.78%	1.25%	2.13%	2.82%	2.93%	0.83%
Value Score	B	-	-	C	C	C
Cash/Price	0.26	0.26	0.06	0.03	0.06	0.15
EV/EBITDA	6.73	5.13	12.09	9.25	5.17	9.74
PEG Ratio	1.86	1.73	2.36	1.07	NA	NA
Price/Book (P/B)	0.69	0.92	2.70	0.92	1.36	1.59
Price/Cash Flow (P/CF)	8.77	8.77	10.70	9.04	17.50	13.88
P/E (F1)	9.31	11.02	18.72	10.69	21.78	20.48
Price/Sales (P/S)	0.78	0.74	2.12	1.34	2.27	1.25
Earnings Yield	11.31%	8.78%	5.19%	9.35%	4.60%	4.88%
Debt/Equity	0.22	0.22	0.72	0.26	0.09	0.43
Cash Flow ($/share)	3.53	3.12	7.01	11.78	4.69	3.81
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	10.52%	3.05%	10.88%	-0.23%	3.06%	8.17%
Proj. EPS Growth (F1/F0)	-2.51%	9.27%	-5.87%	-1.46%	-10.32%	-14.77%
Curr. Cash Flow Growth	12.18%	5.61%	5.92%	0.06%	25.16%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	0.21%	7.31%	8.55%	8.77%	9.30%	4.12%
Current Ratio	0.24	0.44	1.23	0.34	0.29	0.37
Debt/Capital	17.99%	18.73%	43.90%	20.04%	8.23%	30.03%
Net Margin	9.29%	8.06%	11.32%	10.21%	25.20%	6.39%
Return on Equity	9.97%	8.18%	16.60%	8.69%	6.97%	9.75%
Sales/Assets	0.18	0.32	0.55	0.21	0.32	0.29
Proj. Sales Growth (F1/F0)	2.09%	0.00%	-1.15%	-1.42%	2.61%	2.92%
Momentum Score	B	-	-	C	B	D
Daily Price Chg	3.82%	2.39%	2.63%	2.41%	4.46%	5.29%
1 Week Price Chg	-8.92%	-3.88%	-1.74%	-12.43%	-8.47%	-11.84%
4 Week Price Chg	-6.16%	-0.14%	8.71%	-6.59%	2.87%	-2.95%
12 Week Price Chg	-31.92%	-22.39%	-17.57%	-30.48%	-22.84%	-28.89%
52 Week Price Chg	-32.60%	-24.03%	-11.60%	-25.83%	-13.64%	-12.91%
20 Day Average Volume	301,873	145,628	2,734,148	2,908,675	877,697	1,113,575
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.94%	0.00%	-8.91%
(F1) EPS Est 4 week change	-9.68%	-5.21%	-6.57%	-8.36%	-2.16%	-13.74%
(F1) EPS Est 12 week change	-9.48%	-8.14%	-12.64%	-9.02%	-1.31%	-11.86%
(Q1) EPS Est Mthly Chg	0.00%	-4.41%	-10.33%	-23.34%	-6.99%	-41.14%

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.

Value Score	B
Growth Score	C
Momentum Score	B
VGM Score	B

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.

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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