

CNA Financial(CNA)

\$33.10 (As of 08/27/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: F

Summary

CNA Financial is one of the versatile property and casualty insurers maintaining combined ratio at favorable levels despite a tough operating environment that in turn leads to underwriting profitability. Compelling product portfolio, better retention, improving pricing, and new business growth should continue to fuel premium increase. Stable fixed income returns and higher limited partnership returns should continue to support investment results. Strong balance sheet and cash flows enable CNA Financial to engage in shareholder-friendly moves like dividend hikes and special dividends. Shares of the company have underperformed the industry year to date. However, exposure to catastrophe loss poses an inherent risk to the P&C business. Further, increasing expenses due to rising net incurred claims and benefits tend to weigh on margins.

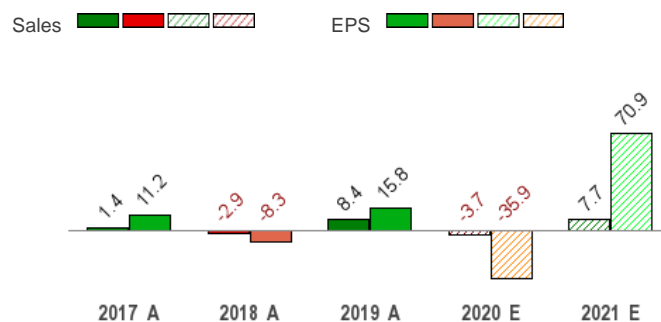
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.30 - \$25.18
20 Day Average Volume (sh)	196,166
Market Cap	\$9.0 B
YTD Price Change	-26.1%
Beta	0.80
Dividend / Div Yld	\$1.48 / 4.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 35% (165 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-4.6%
EPS F1 Est- 4 week change	-5.7%
Expected Report Date	10/26/2020
Earnings ESP	0.0%
P/E TTM	11.5
P/E F1	14.4
PEG F1	2.9
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,320 E
2020	2,206 A	2,389 A	2,491 E	2,491 E	9,578 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	\$0.95 E	\$0.96 E	\$0.99 E	\$1.00 E	\$3.93 E
2020	\$0.40 A	\$0.36 A	\$0.62 E	\$0.92 E	\$2.30 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 08/27/2020. The reports text is as of 08/28/2020.

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.

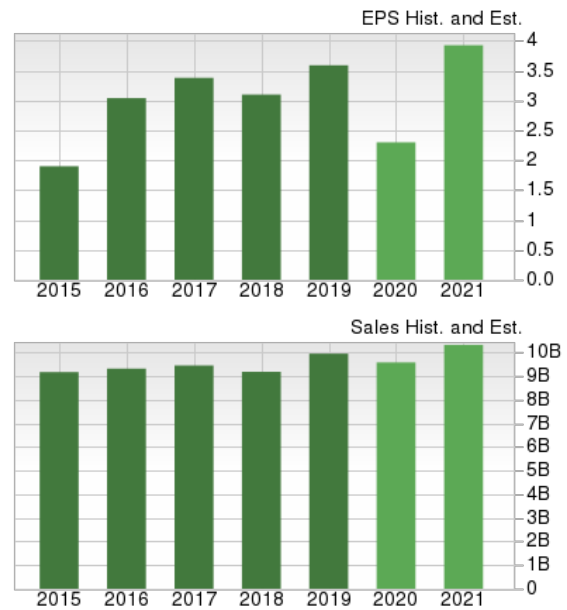
CNA Financial classifies its operations through three core and two non-core segments. The three core segments are Specialty, Commercial and International. The two non-core segments are Life & Group Non-Core and Corporate & Other Non-Core.

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 26.2% year to date, compared with the industry's decline of 7.1%. Improving premiums, favorable combined ratio and solid balance sheet should help shares bounce back.
- ▲ **Improving Premium:** CNA Financial has been witnessing improvement in gross premium written since 2015, which increased 7.3% over the last five years. The momentum continued through the first half of 2020 with each of the segments delivering improved gross premium written. We expect the momentum to continue, given its compelling product portfolio, better retention, improving pricing, and new business growth. The company estimates rate increases to continue to run above long-run loss cost trends throughout 2020.
- ▲ **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. CNA Financial has been able to maintain underlying combined ratio below 95% for straight six quarters. However, combined ratio deteriorated 1660 basis points year over year to 112.3% in the second quarter of 2020 attributable to huge catastrophe loss. Nonetheless, through targeted portfolio management strategies, the company made significant progress in successfully repositioning the portfolio underwritten via Lloyd's syndicate in its effort to improve the overall underwriting results of its International operation.
- ▲ **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. However, net investment income slumped 21% year over year in the first half, primarily due to loss from limited partnership and common stock investments during the period. Nevertheless, the decline was partially offset by stable earnings from fixed-income and other investments. The company's fixed income investment strategy with highest allocations to diversified investment grade corporates as well as highly rated municipal securities should support investment results.
- ▲ **Solid Balance Sheet:** CNA Financial has a solid balance sheet with capital remaining above the target levels required for all ratings and exited the second quarter of 2020 with nearly \$10 billion in statutory surplus. The company enjoys solid ratings from credit rating agencies. Its debt at second quarter end remained almost flat with 2019 end level. Though its debt to capital ratio of 18.7 deteriorated 70 bps from 2019 end, it was better than the industry average of 21.3. With a low debt-to-capital leverage, it has a well-balanced debt maturity profile.
- ▲ **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 (2016-2020) of 13.1%. The current dividend yield of the company is 4.5%, better than the industry average of 0.5%. The special dividend of \$2 per share declared in early 2020 marks six straight year of such declaration. 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.

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

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. The company incurred losses of \$182 million from COVID-19 pandemic, \$61 million due to civil unrest and \$58 million from natural catastrophe in the second quarter of 2020. These losses together added 1750 bps to second-quarter loss ratio.
- ▼ **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 company's net operating income has been affected by this increasing trend, which in turn, might hurt its overall profitability. Total claims, benefits and expenses increased 9.2% year over year in first-half 2020. Net margin in the second quarter contracted 390 bps year over year.
- ▼ **Return on Equity:** Core return on equity of 3.5% in the first half of 2020 contracted 670 bps year over year, reflecting the company's efficiency in utilizing shareholders' fund.

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 Q2 Earnings In Line, Premiums Rise Y/Y

CNA Financial reported second-quarter 2020 core earnings of 36 cents per share, which matched the Zacks Consensus Estimate. The bottom line decreased 66.7% year over year.

The quarterly results suffered substantially from catastrophe losses attributable to COVID-19, civil unrest and weather-related events. Nonetheless, the company benefited from accelerating P&C rate momentum and stable new business.

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	-4.59%
EPS Surprise	0.00%
Quarterly EPS	0.36
Annual EPS (TTM)	2.89

Behind Second-Quarter Headlines

Net written premiums at Property & Casualty Operations improved about 3% year over year to \$1.9 billion driven by rate increase and higher new business.

Net investment income increased 6.9% year over year to \$324 million driven by limited partnership and common stock investments.

Catastrophe losses of \$301 million pretax, including \$182 million related to COVID-19, \$61 million related to civil unrest and \$58 million primarily related to severe weather-related events.

Combined ratio deteriorated 1660 basis points year over year to 112.3%.

Book value as of Jun 30, 2020 was \$42.91 per share, down 4.6% from Dec 31, 2019.

Core return on equity was 3.4%, down 650 basis points (bps).

Segment Results

Specialty's net written premiums rose nearly 4% year over year to \$742 million, driven by solid rate. Combined ratio deteriorated 1350 bps to 104.2%.

Commercial's net written premiums increased 4% year over year to \$949 million, driven by higher new business and favorable rate. Combined ratio deteriorated 1880 bps to 118.5%.

International's net written premiums declined 4% year over year to \$239 million, attributable to continued impact of the strategic exit from certain Lloyd's business classes, offset by growth in Europe. Combined ratio deteriorated 1780 bps to 115.3%.

Life & Group's total operating revenues were \$332 million, down 0.9% year over year. Core income of \$14 million doubled year over year driven by better-than-expected persistency.

Corporate & Other's core loss of \$11 million was flat year over year.

Dividend Update

CNA Financial's board of directors approved a quarterly dividend of 35 cents to be paid out on Sep 3, 2020 to stockholders of record as of Aug 17.

Recent News

CNA Financial Offers 2.050% \$500M Senior Unsecured Notes - Aug 12, 2020

CNA Financial announced the pricing of \$500 million aggregate principal amount of senior unsecured notes. The notes carry an interest rate of 2.050% and are scheduled to mature on Aug 15, 2030.

The company plans to deploy the net proceeds to repurchase, redeem, repay or otherwise retire the \$400 million outstanding aggregate principal balance of its 5.750% senior notes due Aug 15, 2021. The remaining, if any, may be used for general corporate purposes and further investments in short-term interest-bearing securities.

Valuation

CNA Financial shares are down 26.2% in the year-to-date period and 29.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 7.1% and 14.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.5% but down 5.6%, respectively.

The S&P 500 index are up 8.2% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 0.77x trailing 12-month book value, which compares to 1.31x for the Zacks sub-industry, 2.54x for the Zacks sector and 4.71x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.23x and as low as 0.6x, with a 5-year median of 1.03x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 0.82x 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	0.77	1.31	2.54	4.71
	5-Year High	1.23	1.67	2.91	4.71
	5-Year Low	0.6	0.93	1.72	2.83
	5-Year Median	1.03	1.45	2.54	3.76
P/S F12M	Current	0.89	1.77	6.23	3.82
	5-Year High	1.58	11.26	6.67	3.82
	5-Year Low	0.73	1.39	4.97	2.53
	5-Year Median	1.18	1.84	6.06	3.05
P/E F12M	Current	9.83	26.07	16.81	23.37
	5-Year High	17.56	31.55	16.81	23.37
	5-Year Low	6.95	21.01	11.6	15.25
	5-Year Median	11.24	25.67	14.26	17.58

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
First American Financial Corporation (FAF)	Outperform	1
Chubb Limited (CB)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
Market Corporation (MKL)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
Alleghany Corporation (Y)	Neutral	2

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	C	-	-	C	C	C
Market Cap	8.98 B	1.29 B	23.67 B	57.67 B	12.94 B	11.26 B
# of Analysts	2	2	14	7	2	4
Dividend Yield	4.47%	1.29%	1.64%	2.44%	2.98%	0.76%
Value Score	B	-	-	B	C	B
Cash/Price	0.24	0.29	0.07	0.10	0.06	0.28
EV/EBITDA	7.22	5.43	13.33	10.09	5.08	9.97
PEG Ratio	2.84	2.17	3.05	1.78	NA	3.07
Price/Book (P/B)	0.77	0.99	3.18	1.05	1.40	1.93
Price/Cash Flow (P/CF)	9.38	10.50	12.81	10.84	17.16	16.59
P/E (F1)	14.18	14.10	21.68	17.75	25.71	27.67
Price/Sales (P/S)	0.85	0.83	2.50	1.61	1.63	1.46
Earnings Yield	6.95%	5.63%	4.43%	5.64%	3.89%	3.62%
Debt/Equity	0.23	0.24	0.74	0.25	0.10	0.50
Cash Flow (\$/share)	3.53	3.12	6.94	11.78	4.69	3.81
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	11.43%	3.85%	10.41%	-1.69%	3.37%	7.72%
Proj. EPS Growth (F1/F0)	-35.93%	-3.84%	-4.94%	-28.83%	-25.48%	-24.59%
Curr. Cash Flow Growth	12.18%	3.77%	5.22%	0.06%	25.16%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	0.21%	4.81%	8.50%	8.77%	9.30%	4.12%
Current Ratio	0.24	0.43	1.35	0.31	0.28	0.45
Debt/Capital	18.71%	20.03%	43.86%	20.32%	9.46%	33.35%
Net Margin	4.47%	5.15%	10.25%	6.10%	25.20%	4.57%
Return on Equity	6.80%	6.81%	14.66%	5.98%	6.46%	7.55%
Sales/Assets	0.17	0.31	0.50	0.20	0.32	0.29
Proj. Sales Growth (F1/F0)	0.01%	0.00%	-1.43%	2.60%	-18.38%	4.22%
Momentum Score	F	-	-	D	D	D
Daily Price Chg	2.07%	1.23%	0.43%	1.73%	2.50%	2.75%
1 Week Price Chg	-5.81%	-2.02%	-1.45%	-6.32%	-3.46%	-3.37%
4 Week Price Chg	-1.66%	3.57%	3.75%	-1.72%	0.81%	1.49%
12 Week Price Chg	2.70%	2.25%	3.95%	-5.03%	24.49%	2.95%
52 Week Price Chg	-29.11%	-14.62%	2.75%	-18.82%	-28.59%	-11.94%
20 Day Average Volume	196,166	140,961	1,887,168	1,598,624	718,445	582,311
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.74%	5.60%	0.79%	6.57%	1.62%	0.00%
(F1) EPS Est 12 week change	-26.98%	-0.52%	3.43%	-27.05%	-8.83%	-11.52%
(Q1) EPS Est Mthly Chg	-38.50%	0.00%	0.00%	3.92%	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	B
Growth Score	D
Momentum Score	F
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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