

The Hartford(HIG)

\$37.50 (As of 07/02/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: C

Summary

Hartford Financial's shares have underperformed its industry in a year's time. It has witnessed its 2020 and 2021 earnings estimates move south over the past 30 days. The company is exposed to catastrophic loss, which impacted the company's underwriting results. Softness in Personal Lines segment and escalating expenses are other concerns. Its premiums are likely to take a hit from COVID-19 pandemic. Nevertheless, it has been putting in efforts to boost its portfolio through acquisitions. Divestitures also poise the company well for long-term growth. Its capital appreciations, repayment of government funds and measures to de-risk its balance sheet has increased the company's financial strength. Its sound capital-management strategy enables it to return value to shareholders via share buybacks and dividend hikes.

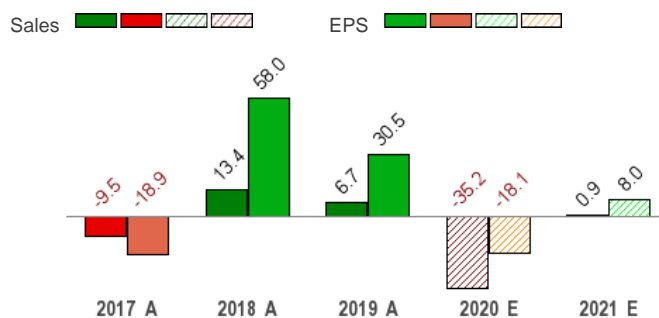
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$62.75 - \$19.04
20 Day Average Volume (sh)	2,989,055
Market Cap	\$13.4 B
YTD Price Change	-38.3%
Beta	0.97
Dividend / Div Yld	\$1.30 / 3.5%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 35% (89 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.8%
Last Sales Surprise	56.2%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	6.7
P/E F1	8.1
PEG F1	0.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,291 E	3,313 E	3,332 E	3,356 E	13,293 E
2020	5,187 A	3,232 E	3,276 E	3,279 E	13,177 E
2019	4,777 A	5,012 A	5,258 A	5,298 A	20,345 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.30 E	\$1.12 E	\$1.15 E	\$1.34 E	\$5.00 E
2020	\$1.34 A	\$1.00 E	\$1.07 E	\$1.23 E	\$4.63 E
2019	\$1.39 A	\$1.33 A	\$1.50 A	\$1.43 A	\$5.65 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 07/02/2020. The reports text is as of 07/03/2020.

Overview

Founded in 1810 and headquartered in Connecticut, The Hartford Financial Services Group Inc. is one of the major multi-line insurance and investment companies in the country, providing investment products, group life and group disability insurance, property and casualty (P&C) insurance and mutual funds in the U.S.

The Hartford strives to improve its position as a market leader within the financial services industry.

It sells various innovative products through multiple distribution channels to individuals and businesses and is considered a leading property and casualty and employee group benefits insurer.

As of Dec 31, 2019, it had total assets and total stockholders' equity of \$70.8 billion and \$16.3 billion, respectively.

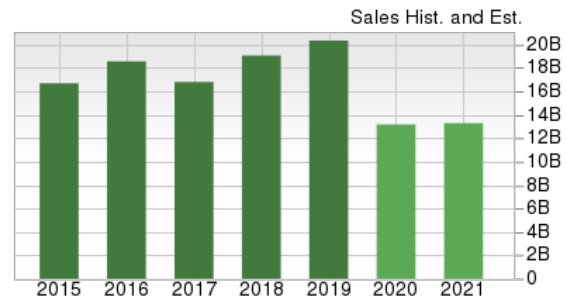
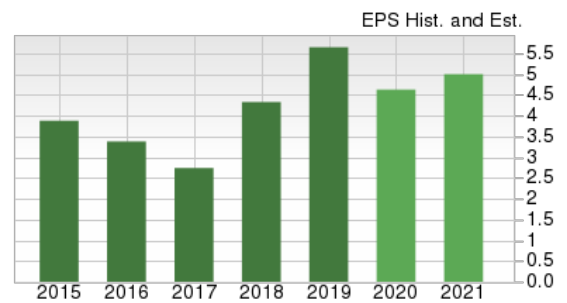
The company reports through the following segments:

The Commercial Lines segment (73% of the total revenue in 2019), formerly known as Property & Casualty Commercial offers workers' compensation, property, automobile, liability, umbrella, marine and livestock coverages mainly in the U.S. The segment also offers various customized insurance products and risk management services including automobile, general liability, professional liability, bond, and specialty casualty coverages.

The **Personal Lines (26.5%)**, formerly known as Consumer Markets segment offers automobile, homeowners and personal umbrella coverages to individuals across the United States, including a special program designed exclusively for members of AARP.

The **P & C Other Ops** reported **0.5%** of 2019 total revenues.

It has two other reporting segments, namely Group Benefits and Hartford Funds, as well as a Corporate category.



Reasons To Sell:

- ▼ **Catastrophe Challenges:** As a property and casualty insurer, the company is substantially exposed to catastrophic events, weighing on its underwriting results. The company suffered a catastrophe loss of \$821 million in 2018. Although in 2019, the company's current accident-year cat loss of \$463 million was down 43.6% from the 2018-level, it poses a threat to the company. In the first quarter of 2020, it faced a cat loss of \$74 million due to tornado, wind and hail events in the midwest and southeast.
- ▼ **Reduction in Premium:** The company expects its premiums to be negatively impacted by the coronavirus outbreak due to exposure, business closures and reductions. Lower customer payroll might affect its results. The company also took certain initiatives, such as a 15% refund of April and May's personal auto premium on account of reduction in miles driven and lower reported claims, which in turn, might dent its revenues. For the second quarter, the company expects decline in new business premium as well as a 15% drop in written premiums.
- ▼ **Challenging Interest Rate Environment:** The current challenging interest rate scenario continues to pose a threat to the company. It anticipates that the same will affect the new cash flows, reinvestment rates and the overall portfolio yield.
- ▼ **Challenges from Personal Lines:** The segment has been generating loss on higher auto liability loss costs since the past few years. In 2018, the segment incurred a loss of \$32 million, wider than 2017's loss of \$9 million. In 2019 and the first quarter of 2020, earned premiums were down 5.9% and 3.1% year over year. Weak performance by this segment raises a concern for the company.
- ▼ **Escalating Expenses:** The company has been witnessing a rise in expenses since 2015. Total benefits and expenses of the company increased 5.7% and 10.7% in 2019 and during the first quarter of 2020, respectively, due to higher benefits, losses and loss adjustment expenses, amortization of deferred acquisition costs, insurance operating costs and other expenses, etc. Escalating expenses weigh on the company's margins.
- ▼ **Price Performance:** Shares of the company have underperformed its industry in a year's time. It has witnessed its 2020 and 2021 earnings estimates move south 0.4% and 1.2%, respectively over the past 30 days. Headwinds facing the company would likely keep the stock under pressure going forward.

Exposure to catastrophe events and softness in Personal Lines segments raise concern. Rising costs also bother.

Risks

- **Strategic Initiatives:** We favorably view a number of strategic initiatives to improve its risk profile from a number of well-executed strategic dispositions of its legacy run-off businesses. Hartford Financial has been vending non-core businesses to concentrate on its U.S. operations and enhance its operating leverage. Apart from lowering expenses, boosting profitability and improving returns to shareholders, these divestitures are enhancing financial flexibility by freeing up more capital. The company has been putting in efforts to boost its portfolio through acquisitions. All these strategic initiatives poise the company well for long-term growth.
 - **Acquisition of Navigators:** On May 23, 2019, the company closed the pending buyout of Navigators Group, a specialty insurer for a deal value of around \$2.1 billion. The move has helped it expand the company's product offerings and geographic reach plus strengthen its commercial business lines. It is also expected to widen the company's underwriting strength in product capabilities.
 - **Effective Capital Utilization:** Hartford Financial's capital appreciations, repayment of government funds and measures to de-risk its balance sheet has increased its financial strength. It also has an intelligent capital management strategy, featuring share buybacks and dividend hikes. The company's dividend has been hiked 200% over the last five years (2013-2018). It raised its quarterly dividend by 8% to 3.25 cents per share, which was paid out on Apr 2, 2020 to its shareholders of record as of Mar 2, 2020. Although the company paused its share buyback program in response to the current environment, we are still positive about its capital deployment strategy.
 - **Profitability:** Its return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 13.3% compares favorably with the industry average of 8.3%, reflecting the company's efficiency in using shareholders' funds.
 - **Balance Sheet Strength:** The company's capital position remains impressive. Total debt is 28.5% (almost unchanged sequentially) of its total equity, lower than the industry average of 43.5%. It has taken several initiatives to improve its liquidity. Thus, its financial flexibility looks encouraging.
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Last Earnings Report

Hartford Financial's Q1 Earnings Beat, Decline Y/Y

Hartford Financial reported first-quarter 2020 adjusted operating earnings of \$1.34 per share, beating the Zacks Consensus Estimate by 0.8% on the back of improved revenues. However, the bottom line fell 3.6% year over year due to a decline in income at Talcott Resolution, reduced net investment income, higher insurance operating costs and other expenses along with short-term disability and paid family leave reserves related to the coronavirus.

Total operating revenues of \$5.2 billion were up 8.6% year over year on the back of solid segmental contributions with a major uptick in the Commercial Lines segment. Moreover, the top line surpassed the Zacks Consensus Estimate by 56.2%.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	56.24%
EPS Surprise	0.75%
Quarterly EPS	1.34
Annual EPS (TTM)	5.60

Segmental Results

Property & Casualty (P&C)

Commercial Line

During the quarter under review, the segment's total revenues of \$2.4 billion were up 11.4% year over year. Net income of \$121 million plunged 67% year over year due to change from net realized capital gains in 2019 to net realized capital losses in 2020 and an unfavourable PYD. Core earnings of \$262 million slid 4% from the prior-year level on weak underwriting gain, partly offset by lower CAY CATs and higher net investment income. The segment's underlying combined ratio was 94.9%, expanding 220 basis points (bps) in the quarter under review.

Personal Lines

Total revenues were \$820 million, down 7.7% year over year. Net income of \$98 million inched up 2% year over year owing to solid underwriting gain. Core earnings of \$117 million surged 43% from the year-ago quarter, courtesy of a stronger underwriting gain and increased net investment income. Underlying combined ratio of the segment contracted 250 bps to 86.6% in the quarter under review.

P&C Other Ops

Revenues grossed \$9 million, down 71% year over year.

Group Benefits

Group Benefits' total revenues of \$1.5 billion slipped 2.4% year over year. Net income of \$104 million dropped 12% year over year, mainly due to net realized capital losses. Core earnings of \$115 million in the first quarter decreased 6% year over year. This downside was due to increase in insurance operating costs and other expenses, rise in group disability loss ratio and soft net investment income. Total loss ratio of 71.9% contracted 280 bps from the year-earlier quarter.

Hartford Funds

Hartford Funds' operating revenues of \$237 million dipped 2.1% year over year. Hartford Funds reported net income of \$36 million and core earnings of \$44 million, up 20% and 57% year over year, respectively, primarily on higher investment management fee revenues and decrease in contingent consideration payable in relation to the 2016 Lattice acquisition. Average AUM of \$120 billion was up 7% from the year-ago figure.

Corporate

Operating revenues were \$(15) million against the year-ago quarter's \$84 million. The segment's core losses of \$64 million were wider than the \$15-million loss incurred in the prior-year quarter. This was mainly due to lower net investment income and earnings decline in retained equity interest at Talcott Resolution. The segment's net loss of \$91 million came in against no net income or comparative loss in the year-ago quarter.

Share Repurchase and Dividend Update

In the quarter under review, the company bought back shares worth \$150 million and paid out \$108 million in common dividends.

Financial Update

Book value per share as of Mar 31, 2020 was down 6% to \$41.42 from the level as of Dec 31, 2019. Core earnings' return on equity expanded 180 bps to 13.3%.

Recent News

Hartford Financial's Program Extension to Aid AARP Members — Jun 2, 2020

Hartford Financial unveiled the renewal of its auto and home insurance program until Jan 1, 2033. The program, launched in 1984, has largely benefitted AARP members for more than 35 years. For people above 50 years of age, it offers auto, homeowners and personal umbrella insurance. The company also revealed plans to make further investments in technological upgradations. In line with this, Duck Creek OnDemand has been chosen as the company's new technology platform.

Hartford Financial Announces Dividend — May 20, 2020

Hartford Financial announces a dividend of 32.5 cents per share, payable Jul 2, 2020 to shareholders as of Jun 1, 2020.

Valuation

Hartford Financial shares are down 37.5% and 32.7% 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 25% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 22.6% and 15%, respectively.

The S&P 500 index is down 2.3% in the year-to-date period but up 6% in the past year.

The stock is currently trading at 7.78x forward 12-month earnings, which compares to 8.12x for the Zacks sub-industry, 16.03x for the Zacks sector and 22.18x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.77x and as low as 4.86x, with a 5-year median of 11x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$32 price target reflects 6.64x forward earnings.

The table below shows summary valuation data for HIG

Valuation Multiples - HIG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.78	8.12	16.03	22.18
	5-Year High	15.77	12.61	16.18	22.18
	5-Year Low	4.86	6.62	11.58	15.23
	5-Year Median	11	10.04	14.06	17.52
P/S F12M	Current	1.01	0.98	6	3.47
	5-Year High	1.46	1.74	6.65	3.47
	5-Year Low	0.67	0.88	4.95	2.54
	5-Year Median	1.06	1.28	6.06	3.01
P/B TTM	Current	0.9	1.05	2.3	4.27
	5-Year High	1.56	1.98	2.91	4.55
	5-Year Low	0.59	0.85	1.71	2.84
	5-Year Median	1.15	1.48	2.53	3.69

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Old Republic International Corporation (ORI)	Outperform	1
Aflac Incorporated (AFL)	Neutral	2
American International Group, Inc. (AIG)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
Chubb Limited (CB)	Neutral	3
CNO Financial Group, Inc. (CNO)	Neutral	3
Kemper Corporation (KMPR)	Neutral	3
MetLife, Inc. (MET)	Neutral	3

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	HIG	X Industry	S&P 500	AIG	CB	MET
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	C	A	A
Market Cap	13.43 B	3.74 B	21.98 B	25.77 B	56.68 B	32.36 B
# of Analysts	5	3	14	6	7	4
Dividend Yield	3.47%	2.51%	1.91%	4.28%	2.48%	5.16%
Value Score	B	-	-	A	B	A
Cash/Price	0.21	0.37	0.07	1.09	0.09	1.29
EV/EBITDA	4.70	4.06	12.74	2.89	9.99	0.89
PEG Ratio	0.85	1.22	2.89	1.08	NA	4.20
Price/Book (P/B)	0.90	0.88	2.98	0.43	1.09	0.46
Price/Cash Flow (P/CF)	5.41	7.18	11.75	2.86	10.65	6.07
P/E (F1)	8.10	10.75	21.41	10.75	12.80	6.54
Price/Sales (P/S)	0.65	0.75	2.30	0.50	1.58	0.45
Earnings Yield	12.35%	9.20%	4.42%	9.29%	7.81%	15.29%
Debt/Equity	0.29	0.22	0.76	0.58	0.26	0.21
Cash Flow (\$/share)	6.94	3.27	6.94	10.45	11.78	5.87
Growth Score	F	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	8.64%	9.41%	10.93%	-1.48%	-0.23%	4.04%
Proj. EPS Growth (F1/F0)	-18.05%	-7.08%	-9.56%	-39.36%	-3.00%	-10.84%
Curr. Cash Flow Growth	20.19%	6.77%	5.51%	41.46%	0.06%	6.34%
Hist. Cash Flow Growth (3-5 yrs)	2.69%	1.69%	8.62%	-3.88%	8.77%	-4.47%
Current Ratio	0.29	0.48	1.30	0.27	0.31	0.16
Debt/Capital	22.17%	20.90%	44.46%	36.41%	20.93%	17.08%
Net Margin	8.33%	5.09%	10.62%	8.59%	10.21%	12.37%
Return on Equity	13.25%	7.05%	15.75%	4.31%	8.69%	8.85%
Sales/Assets	0.30	0.20	0.55	0.10	0.21	0.10
Proj. Sales Growth (F1/F0)	-35.23%	0.00%	-2.54%	-5.72%	2.34%	-4.56%
Momentum Score	C	-	-	D	C	A
Daily Price Chg	-0.53%	0.22%	0.47%	1.15%	-0.07%	0.39%
1 Week Price Chg	-6.35%	-2.85%	-3.90%	-6.60%	-3.12%	-6.03%
4 Week Price Chg	-15.31%	-4.26%	-3.77%	-15.02%	-6.66%	-9.38%
12 Week Price Chg	-10.46%	5.33%	8.02%	12.73%	2.70%	0.54%
52 Week Price Chg	-34.40%	-22.21%	-7.59%	-45.43%	-16.43%	-29.36%
20 Day Average Volume	2,989,055	188,810	2,649,865	6,877,860	2,219,255	6,765,810
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.81%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.43%	0.00%	0.00%	-3.45%	-1.50%	0.54%
(F1) EPS Est 12 week change	-12.51%	-12.51%	-9.53%	-35.07%	-9.68%	-8.94%
(Q1) EPS Est Mthly Chg	-1.97%	0.00%	0.00%	-5.31%	-4.99%	-4.27%

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	F
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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