

## The Hartford(HIG)

**\$60.64** (As of 01/03/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

### Summary

Hartford Financial's shares have outperformed its industry in a year's time. The company has witnessed its 2019 earnings estimates move upward over the past 60 days. Its strategic divestitures pave the way for long-term growth. Its investment results and capital management are impressive. Its results have improved owing to a sturdy underwriting, strong investment performance and lower tax rates. The acquisition of Navigators will expand its Commercial Lines business by enhancing its product offerings and increasing geographical reach. Its decreasing debt level is also impressive. However, it is exposed to catastrophic loss, weighing down its margins. Softness in Personal Lines segment and escalating expenses are other concerns.

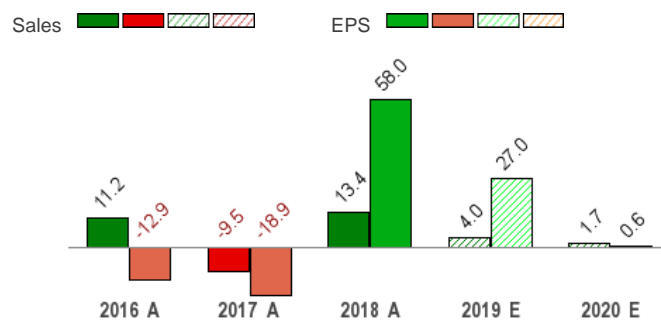
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$62.75 - \$42.92
20 Day Average Volume (sh)	1,367,690
Market Cap	\$21.9 B
YTD Price Change	-0.2%
Beta	0.63
Dividend / Div Yld	\$1.20 / 2.0%
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	Top 19% (47 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.1%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/03/2020
Earnings ESP	0.0%
P/E TTM	12.1
P/E F1	11.0
PEG F1	1.2
P/S TTM	1.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					20,158 E
2019	4,777 A	5,012 A	5,258 A		19,829 E
2018	4,721 A	4,737 A	4,804 A	4,805 A	19,067 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.39 E	\$1.37 E	\$1.36 E	\$1.50 E	\$5.53 E
2019	\$1.39 A	\$1.33 A	\$1.50 A	\$1.30 E	\$5.50 E
2018	\$1.27 A	\$1.13 A	\$1.15 A	\$0.78 A	\$4.33 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 01/03/2020. The reports text is as of 01/06/2020.

## 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 company reports through the following segments:

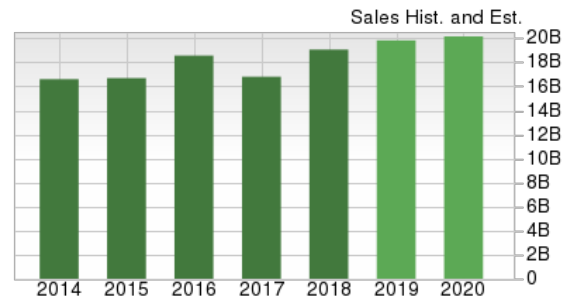
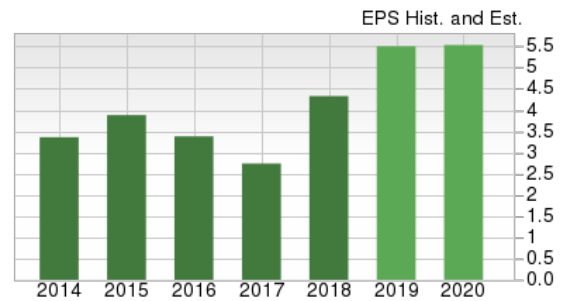
**The Commercial Lines segment (41% of the total revenue in 2018)**, formerly known as Property & Casualty Commercial offers workers' compensation, property, automobile, liability, umbrella, marine and livestock coverages mainly in the U.S. The segment also offers various customized insurance products and risk management services including automobile, general liability, professional liability, bond, and specialty casualty coverages.

**The Personal Lines (20%)**, 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 Group Benefits (32.6%)** segment provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, and also voluntary benefits and group retiree health products.

**The Hartford Funds (6%)** segment offers investment management, administration, distribution and related services to investors.

The company has a **Corporate (0.4%)** segment, which includes Hartford Financial's debt financing and related interest expenses, along with other capital raising activities and purchase accounting adjustments not allocated to the reporting segments.



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## Reasons To Buy:

- ▲ **Price Performance:** In a year's time, shares of the company have rallied 38%, outperforming its industry's growth of 14.4%. Moreover, it has witnessed its 2019 earnings estimate move north 1.1%. Strong fundamentals would likely help the stock continue with its rally.
- ▲ **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 also 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 will 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.
- ▲ **Improving Investment Income:** Hartford Financial's net investment income is gradually increasing after having suffered low interest rates from the past many years. The metric increased 11% year over year in 2018. Following the trend, it again rose 9.4% in the first nine months of 2019 on the back of higher asset levels, driven by the Navigators buyout, higher income from limited partnerships and other alternative investments, higher return on equity investments as well as better average short-term interest rates. 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).
- ▲ **Effectively Lowering Debt Level:** Hartford Financial has also been successful in reducing its debt burden over the past several years. In the last four years (2012-2016), the company's long-term debt has decreased by 33%. Although in 2017, the debt level had slightly inched up 1.8%, the same was down 6.8% in 2018. Interest expenses in the latter year were also down by 5.7%. The company's debt to equity ratio stands at 30%, lower than its industry's average of 41.7%. Moreover, times interest earned of improved from 2.4 in 2016 to 6.9 in 2018.
- ▲ **Profitability:** Its return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 12.7% compares favorably with the industry average of 8.1%, reflecting the company's efficiency in using shareholders' funds

Strategic initiatives, improving investment results, lowering debt level and efficient capital management position the company for long term growth.

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## 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 the first nine months of 2019, the company's cat loss of \$348 million was down 24.3% compared with the 2018-level, it poses a threat to the company. Exposure to cat events and cat losses are likely to impart volatility to the company's earnings.
- ▼ **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 the first nine months of 2019, earned premiums were down 6.3% 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 6% in the first nine months of 2019 due to higher benefits, losses and loss adjustment expenses. Escalating expenses weigh on the company's margins.

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

## Last Earnings Report

### Hartford Financial Q3 Earnings Top Estimates, Rise Y/Y

Hartford Financial reported third-quarter 2019 adjusted operating earnings of \$1.50 per share, beating the Zacks Consensus Estimate by 19% on higher revenues and its Commercial Lines business. The bottom line also improved 30.4% year over year.

Total operating revenues of \$5.2 billion were up 9.5% year over year on the back of its Commercial Lines business.

Quarter Ending **09/2019**

Report Date	<b>Nov 04, 2019</b>
Sales Surprise	<b>NA</b>
EPS Surprise	<b>19.05%</b>
Quarterly EPS	<b>1.50</b>
Annual EPS (TTM)	<b>5.00</b>

### Quarterly Segment Results

#### Property & Casualty (P&C)

##### Commercial Line

During the quarter under review, the segment's total revenues were \$2.6 billion, up 26% year over year.

Net income of \$336 million rose 16% year over year owing better new investment income, increased net realized capital gains and a better underwriting gain. Core earnings of \$303 million increased 14% over the prior-year quarter's level on higher underwriting gain, net investment income, etc.

The segment's underlying combined ratio was 93.9%, expanding 20 basis points (bps) in the quarter under review.

Current accident year catastrophe loss came in at \$3.3 million, down 37.7% year over year.

##### Personal Lines

Total revenues were \$890 million, down 4% year over year. Net income of \$94 million generated soared 84% from the year-ago figure, driven by lower current accident year catastrophe losses, higher net investment income and better net realized capital gains. Core earnings of \$87 million also surged 85% year over year, driven by underwriting gain, net investment income and new business premiums. Underlying combined ratio of the segment expanded 50 bps to 92.3% in the quarter under review due to higher expense ratio.

##### P&C Other Ops

Revenues grossed \$25 million, flat year over year.

##### Group Benefits

Group Benefits' total revenues of \$1.5 billion inched up 0.5% year over year.

Net income of \$146 million was up 90% year over year. Core earnings of \$141 million in the third quarter were up 38% year over year. This upside is attributable to lower disability loss ratio. Total loss ratio of 71.1% improved 440 bps from the year-earlier quarter as lower group disability loss ratio was offset by higher group life loss ratio.

##### Hartford Funds

Hartford Funds' operating revenues were \$256 million, down 4.5% year over year.

Hartford Financial reported net income of \$40 million and core earnings of \$39 million, respectively down 2.6% and 5.4% year over year, primarily due to lower investment management fee revenues on account of fee reductions and a shift to lower fee funds. Average AUM was \$120 billion, flat with the year-ago quarter's figure.

##### Corporate

Operating revenues rose 22.5% to \$25 million. The segment's core losses of \$37 million were narrower than the \$45-million loss incurred in the prior-year quarter. This was mainly on the back of increased earnings from the retained equity interest. The segment's net loss of \$99 million was wider than the year-ago quarter's loss of \$35 million.

##### Financial Update

Book value per share as of Sep 30, 2019 was up 23% to \$43.13 from the level as of Dec 31, 2018. Core earnings' return on equity rose 200 bps to 12.3%.

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## Recent News

### The Hartford Takes Initiatives to Reduce Cyber Risks – Dec 18, 2019

The Hartford Financial has enhanced its array of services in an effort to protect customers from cyber-attacks. The company has beefed up its cyber security with identification of digital risk exposure throughout the dark web from Terbium Labs, custom product that uses BlackBerry's CylancePROTECT AI, and ML software to protect company infrastructure.

### The Hartford Financial Enhances IoT Abilities — Nov 25, 2019

The Hartford Financial adds to its IoT Innovation Lab and abilities, which in turn, would prevent or reduce customers' property damage.

### The Hartford Financial Declares Dividend — Oct 23, 2019

The Hartford Financial's board of directors approved a dividend of 30 cents per share, payable Jan 2, 2020 to shareholders of record as of Dec 2, 2019. The board also announced a dividend of \$375 on each of the Series G preferred stock payable Feb 8, 2020 to Series G preferred stock shareholders of record on Feb 1, 2020.

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## Valuation

Hartford Financial shares are up 38% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 14.4% and 17%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 10.95X trailing price to earnings ratio, which compares to 9.63X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.77X and as low as 8.15X, with a 5-year median of 11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64 price target reflects 11.55X price to earnings ratio.

The table below shows summary valuation data for HIG

Valuation Multiples - HIG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	10.95	9.63	14.77	18.7
	5-Year High	15.77	12.61	16.2	19.34
	5-Year Low	8.15	8.4	12	15.17
	5-Year Median	11	10.25	13.98	17.44
P/S F12M	Current	1.07	1.27	6.56	3.47
	5-Year High	1.46	1.74	6.61	3.47
	5-Year Low	0.74	0.89	5.2	2.54
	5-Year Median	1.12	1.32	6.04	3
P/B TTM	Current	1.39	1.37	2.83	4.42
	5-Year High	1.56	1.98	2.89	4.42
	5-Year Low	0.83	0.94	1.83	2.85
	5-Year Median	1.12	1.46	2.5	3.6

As of 01/03/2020

## Industry Analysis Zacks Industry Rank: Top 19% (47 out of 252)



## Top Peers

Aflac Incorporated (AFL)	Neutral
American International Group, Inc. (AIG)	Neutral
The Allstate Corporation (ALL)	Neutral
Chubb Limited (CB)	Neutral
CNO Financial Group, Inc. (CNO)	Neutral
Kemper Corporation (KMPR)	Neutral
MetLife, Inc. (MET)	Neutral
Old Republic International Corporation (ORI)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	HIG Neutral	X Industry	S&P 500	AIG Neutral	CB Neutral	MET Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Market Cap	21.86 B	5.08 B	23.66 B	44.68 B	70.60 B	46.98 B
# of Analysts	4	2	13	6	7	5
Dividend Yield	1.98%	1.98%	1.79%	2.49%	1.93%	3.44%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Cash/Price	0.15	0.22	0.04	0.58	0.06	0.76
EV/EBITDA	9.12	9.12	13.88	7.88	12.76	4.35
PEG Ratio	1.15	1.15	1.99	1.02	1.42	0.98
Price/Book (P/B)	1.39	1.16	3.36	0.67	1.29	0.70
Price/Cash Flow (P/CF)	10.46	10.46	13.62	7.07	13.45	9.93
P/E (F1)	10.96	10.94	18.74	10.17	14.16	8.37
Price/Sales (P/S)	1.09	1.08	2.67	0.88	2.04	0.69
Earnings Yield	9.12%	9.12%	5.32%	9.83%	7.06%	11.94%
Debt/Equity	0.28	0.21	0.72	0.53	0.24	0.21
Cash Flow (\$/share)	5.80	3.08	6.94	7.26	11.58	5.14
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	5.77%	4.22%	10.56%	-13.65%	-1.51%	0.36%
Proj. EPS Growth (F1/F0)	0.55%	6.77%	7.41%	10.87%	6.39%	10.34%
Curr. Cash Flow Growth	43.75%	8.92%	14.83%	5.26%	12.66%	7.75%
Hist. Cash Flow Growth (3-5 yrs)	-8.83%	-0.70%	9.00%	-10.95%	8.90%	-5.77%
Current Ratio	0.29	0.37	1.23	0.26	0.31	0.15
Debt/Capital	21.28%	17.40%	42.92%	34.33%	19.94%	17.40%
Net Margin	8.66%	6.67%	11.08%	3.56%	10.48%	10.82%
Return on Equity	12.69%	7.19%	17.10%	4.17%	8.60%	8.82%
Sales/Assets	0.30	0.22	0.55	0.10	0.20	0.09
Proj. Sales Growth (F1/F0)	%	3.78%	4.20%	NA	5.00%	2.39%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>D</b>	<b>A</b>
Daily Price Chg	-0.51%	-0.37%	-0.61%	-0.77%	-0.15%	-1.03%
1 Week Price Chg	-0.57%	0.00%	0.13%	-0.91%	0.18%	-1.03%
4 Week Price Chg	0.20%	2.33%	2.60%	0.43%	3.65%	4.41%
12 Week Price Chg	3.91%	6.50%	8.87%	-4.99%	0.25%	13.63%
52 Week Price Chg	41.62%	19.25%	29.34%	32.54%	24.95%	25.01%
20 Day Average Volume	1,367,690	104,461	1,603,615	3,795,699	1,284,882	4,758,759
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.13%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.79%	0.00%	0.50%
(F1) EPS Est 12 week change	1.18%	-0.09%	-0.57%	-1.70%	-0.81%	-0.09%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.31%	-0.07%	0.88%

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## 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.

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### 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>A</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

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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