

The Hartford(HIG)

\$59.62 (As of 02/06/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Hartford Financial's fourth-quarter 2019 adjusted operating earnings of \$1.43 per share has beat the Zacks Consensus Estimate by 6.7% and surged 83.3% year over year on better underwriting results in Property & Casualty, a lower group disability loss ratio in Group Benefits and an improved net investment income. Its shares have outperformed its industry in a year's time. 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 has helped it expand its Commercial Lines business. However, it is exposed to catastrophic loss, weighing down its margins. Softness in Personal Lines segment and escalating expenses are other concerns.

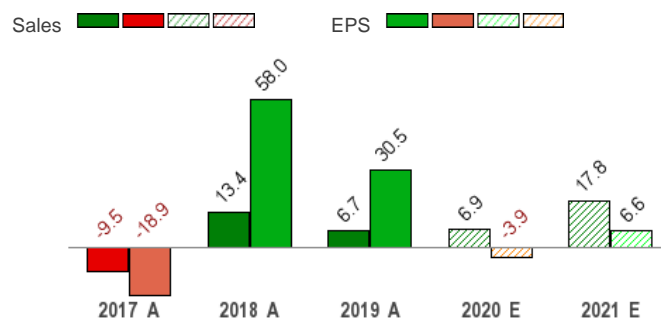
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$62.75 - \$47.15
20 Day Average Volume (sh)	2,374,406
Market Cap	\$21.5 B
YTD Price Change	-1.9%
Beta	0.60
Dividend / Div Yld	\$1.30 / 2.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.7%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	05/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					25,624 E
2020					21,752 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	\$1.48 E	\$1.38 E	\$1.37 E	\$1.55 E	\$5.79 E
2020	\$1.39 E	\$1.27 E	\$1.30 E	\$1.47 E	\$5.43 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.

P/E TTM	10.6
P/E F1	11.0
PEG F1	1.2
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

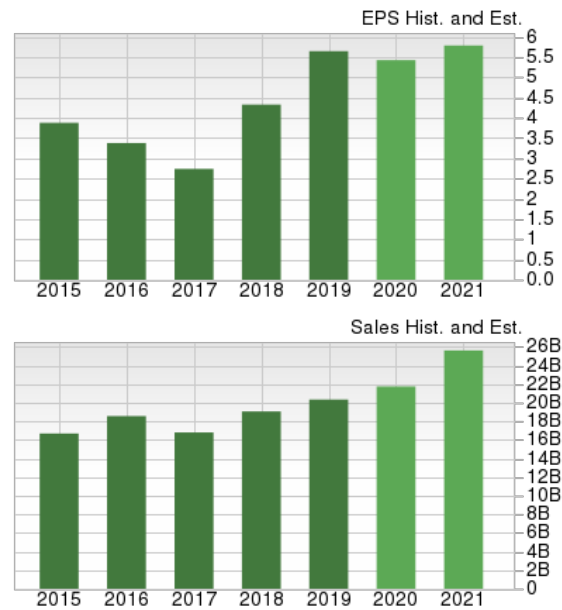
Founded in 1810 and headquartered in Connecticut, The Hartford Financial Services Group Inc. is one of the major multi-line insurance and investment companies in the country, providing investment products, group life and group disability insurance, property and casualty (P&C) insurance and mutual funds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

The company reports through the following segments:

The Commercial Lines segment (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.



Reasons To Buy:

- ▲ **Price Performance:** In a year's time, shares of the company have rallied 24%, outperforming its industry's growth of 9.5%. 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 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. The company expects underlying combined ratio for Commercial Lines to be in the range of 92 to 94% for 2020, the midpoint of which is 1.1% lower than 2019's reported figure of 94%.
 - ▲ **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 by almost 10% in 2019 driven by the Navigators buyout, higher income from make whole payments and mortgage loan prepayments. We expect the metric to continue growing on the back of higher premiums.
 - ▲ **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).
 - ▲ **Profitability:** Its return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 13.6% compares favorably with the industry average of 8.1%, reflecting the company's efficiency in using shareholders' funds.
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Strategic initiatives, improving investment results, lowering debt level and efficient capital management position the company for long term growth.

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 fourth quarter, it incurred large losses written from its international desk with a major loss related to the Texas oil refinery explosion and a property and business interruption loss from the Florida tornado.
- ▼ **Weak 2020 Guidance:** Following fourth-quarter results, the company provided an initial view for 2020. It now expects underlying combined ratio for Commercial Lines in the range of 92-94%, the mid-point being 1.1% lower than the 2019 reported figure of 94%. Core earnings margin for Group Benefits is expected to be 6.5-7.5%, the mid-point being lower than 2019's figure by 21.3%.
- ▼ **Challenging Interest Rate Environment:** Management shows a concern about the current challenging interest rate despite its investment income performing well. The company anticipates that the same would 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, earned premiums were down 5.9% 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% in 2019 due to higher benefits, losses and loss adjustment expenses, amortization of deferred acquisition costs, insurance operating costs and other expenses, loss on extinguishment of debt and loss on reinsurance transaction. 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's Q4 Earnings Beat Mark, Soar Y/Y

Hartford Financial reported fourth-quarter 2019 adjusted operating earnings of \$1.43 per share, beating the Zacks Consensus Estimate by 6.7% on better underwriting results in Property & Casualty, a lower group disability loss ratio in Group Benefits and an improved net investment income. The bottom line also surged 83.3% year over year.

Total operating revenues of \$5.3 billion were up 15.7% year over year on the back of solid segmental contributions with a major uptick from its Commercial Lines segments.

Quarter Ending **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	NA
EPS Surprise	6.72%
Quarterly EPS	1.43
Annual EPS (TTM)	5.65

Segmental Results

Property & Casualty (P&C)

Commercial Line

During the quarter under review, the segment's total revenues were \$2.6 billion, up 34.2% year over year.

Net income of \$302 million rose 19% year over year owing to better new investment income and change from net realized capital losses to net realized capital gains in the fourth quarter. Core earnings of \$292 million declined 13% from the prior-year level on lower underwriting gain, a higher CAY loss ratio for workers' compensation, etc.

The segment's underlying combined ratio was 95.9%, expanding 420 basis points (bps) in the quarter under review.

Current accident year catastrophe loss came in at \$3.9 million, surging 95% year over year.

Personal Lines

Total revenues were \$874 million, down 1.2% year over year.

Net income of \$66 million came in against net loss of \$178 million in the fourth quarter of 2018 on the back of change in underwriting gain, net realized capital gains and higher net investment income. Core earnings of \$61 million came in against the year-ago core loss of \$166 million. This was courtesy of a stronger underwriting gain and increased net investment income.

Underlying combined ratio of the segment expanded 250 bps to 95.3% in the quarter under review due to higher expense ratio and wider non-CAT property losses than the unusually low losses in the prior-year quarter.

P&C Other Ops

Revenues grossed \$25 million, up 92.3% year over year.

Group Benefits

Group Benefits' total revenues of \$1.5 billion inched up 1.4% year over year.

Net income of \$159 million was up 41% year over year, mainly on lower group disability loss ratio. Core earnings of \$161 million in the fourth quarter were up 18% year over year. This upside is attributable to improved loss ratio.

However, the same was partly offset by higher expense ratio.

Total loss ratio of 68.8% improved 380 bps from the year-earlier quarter, riding on lower group disability loss ratio and better group life loss ratio.

Hartford Funds

Hartford Funds' operating revenues were \$260 million, up 6.1% year over year.

Hartford Funds reported net income of \$41 million and core earnings of \$40 million, respectively up 14% and 5% year over year, primarily on higher investment management fee revenues.

Average AUM of \$122 billion was up 9% from the year-ago figure.

Corporate

Operating revenues rose 64.7% to \$56 million.

The segment's core losses of \$39 million were narrower than the \$46-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 \$29 million was wider than the year-ago quarter's loss of \$12 million. This was mainly due to an income tax benefit recognized in the fourth quarter of 2018 related to tax reform.

Share Repurchase and Dividend Update

In the quarter under review, the company bought back shares worth \$110 million and paid out \$106 million in common dividends.

Moreover, the company hiked its quarterly dividend by 8% to 3.25 cents per share, payable Apr 2, 2020 to its shareholders of record as of Mar 2, 2020.

Financial Update

Book value per share as of Dec 31, 2019 was up 25% to \$43.85 from the level as of Dec 31, 2018.

Core earnings' return on equity rose 200 bps to 13.6%.

Full-Year Update

For 2019, core earnings of the company grew 31% year over year to \$5.65 per share.

In the entire year, the company returned \$633 million to its shareholders in the form of share buybacks and dividend payments.

2020 Guidance

Following fourth-quarter results, the company released its 2020 outlook.

Combined ratio for Commercial Lines business is expected the range of 95.5-97.5% while underlying combined ratio for the same is estimated in the range of 92-94%.

Personal Lines combined ratio is anticipated in the band of 98.5-100.5% while underlying combined ratio for the same is projected to be 91.5-93.5%.

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.

Valuation

Hartford Financial shares are up 25% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 12.1% and 10.9%, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 10.82X trailing price to earnings ratio, which compares to 9.96X for the Zacks sub-industry, 14.94X for the Zacks sector and 19.17X 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 11.01X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 11.45X 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 F12M	Current	10.82	9.96	14.94	19.17
	5-Year High	15.77	12.61	16.21	19.34
	5-Year Low	8.15	8.4	12	15.17
	5-Year Median	11.01	10.23	14.07	17.45
P/S F12M	Current	1.05	1.34	6.53	3.55
	5-Year High	1.46	1.74	6.61	3.55
	5-Year Low	0.74	0.89	5.39	2.54
	5-Year Median	1.12	1.32	6.04	3
P/B TTM	Current	1.37	1.39	2.83	4.56
	5-Year High	1.56	1.98	2.89	4.56
	5-Year Low	0.83	0.94	1.83	2.85
	5-Year Median	1.14	1.46	2.5	3.62

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 255)



Top Peers

MetLife, Inc. (MET)	Outperform
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
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 Outperform
VGM Score	A	-	-	A	B	B
Market Cap	21.49 B	5.01 B	24.40 B	46.46 B	73.97 B	47.70 B
# of Analysts	5	2	13	7	8	6
Dividend Yield	2.01%	1.93%	1.75%	2.40%	1.84%	3.39%
Value Score	A	-	-	B	C	A
Cash/Price	0.15	0.23	0.04	0.59	0.06	0.78
EV/EBITDA	9.18	8.14	14.17	8.14	13.30	4.48
PEG Ratio	1.16	1.16	2.05	1.05	1.49	0.97
Price/Book (P/B)	1.35	1.13	3.31	0.69	1.34	0.72
Price/Cash Flow (P/CF)	10.10	10.35	13.63	7.35	14.96	10.08
P/E (F1)	11.00	11.10	19.08	10.54	14.86	8.51
Price/Sales (P/S)	1.04	1.10	2.67	0.92	2.09	0.69
Earnings Yield	9.11%	8.89%	5.24%	9.49%	6.73%	11.74%
Debt/Equity	0.30	0.21	0.71	0.53	0.24	0.22
Cash Flow (\$/share)	5.90	3.07	6.89	7.26	10.91	5.14
Growth Score	A	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	5.77%	4.22%	10.80%	-13.65%	-1.51%	0.36%
Proj. EPS Growth (F1/F0)	-3.93%	8.79%	7.23%	10.32%	8.62%	-0.27%
Curr. Cash Flow Growth	2.31%	9.66%	9.51%	5.26%	-7.34%	7.75%
Hist. Cash Flow Growth (3-5 yrs)	-8.83%	-0.76%	8.55%	-10.95%	8.90%	-5.77%
Current Ratio	0.29	0.38	1.20	0.26	0.34	0.14
Debt/Capital	22.96%	17.51%	42.90%	34.33%	19.94%	17.89%
Net Margin	10.05%	7.08%	11.76%	3.56%	12.61%	8.39%
Return on Equity	13.60%	6.77%	16.98%	4.17%	8.59%	9.14%
Sales/Assets	0.30	0.23	0.54	0.10	0.20	0.10
Proj. Sales Growth (F1/F0)	0.00%	3.43%	4.15%	1.18%	-4.24%	0.32%
Momentum Score	D	-	-	B	B	F
Daily Price Chg	0.35%	0.00%	-0.11%	1.77%	-1.28%	0.66%
1 Week Price Chg	0.51%	-2.00%	-2.60%	-1.57%	-0.01%	-3.04%
4 Week Price Chg	-1.65%	-0.02%	1.51%	2.16%	6.02%	-0.95%
12 Week Price Chg	-3.25%	1.43%	5.63%	-1.44%	7.84%	5.21%
52 Week Price Chg	23.69%	12.21%	17.01%	24.70%	24.96%	19.19%
20 Day Average Volume	2,374,406	114,141	1,961,054	4,056,249	1,702,878	5,210,963
(F1) EPS Est 1 week change	-0.84%	0.00%	0.00%	0.00%	0.29%	0.00%
(F1) EPS Est 4 week change	-1.89%	-0.31%	-0.00%	0.34%	-0.21%	-0.31%
(F1) EPS Est 12 week change	-1.95%	-1.06%	-0.16%	-0.76%	-0.59%	1.30%
(Q1) EPS Est Mthly Chg	0.29%	0.00%	0.00%	-0.91%	0.57%	-1.91%

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	A
Growth Score	A
Momentum Score	D
VGM Score	A

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.

Disclosures

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