

## The Hartford(HIG)

**\$33.30** (As of 05/14/20)

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

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:D

Value: B

Growth: F

Momentum: C

## Summary

Hartford Financial's strategic divestitures and capital management are other positives. The acquisition of Navigators has helped it expand its Commercial Lines business. The company's shares have underperformed its industry in a year's time. It is exposed to catastrophic loss, weighing down its margins. Softness in Personal Lines segment and escalating expenses are other concerns. Its premiums are likely to take a hit from COVID-19 pandemic. Its first-quarter 2020 adjusted operating earnings of \$1.34 per share beat the Zacks Consensus Estimate by 0.8%. However, the bottom line slid 3.6% year over year due to a decline in income at Talcott Resolution, lower net investment income, higher insurance operating costs and expenses along with short-term disability and paid family leave reserves related to the coronavirus.

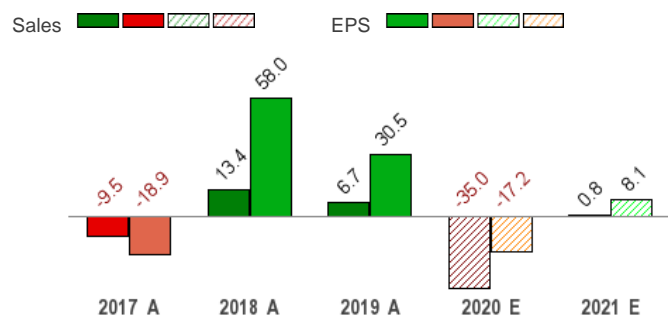
## Price, Consensus & Surprise



## Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | \$62.75 - \$19.04                      |
| 20 Day Average Volume (sh) | 3,049,971                              |
| Market Cap                 | \$11.9 B                               |
| YTD Price Change           | -45.2%                                 |
| Beta                       | 0.97                                   |
| Dividend / Div Yld         | \$1.30 / 3.9%                          |
| Industry                   | <a href="#">Insurance - Multi line</a> |
| Zacks Industry Rank        | Bottom 45% (138 out of 253)            |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 0.8%       |
| Last Sales Surprise       | 56.2%      |
| EPS F1 Est- 4 week change | -10.4%     |
| Expected Report Date      | 08/06/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 6.0        |
| P/E F1                    | 7.1        |
| PEG F1                    | 0.8        |
| P/S TTM                   | 0.6        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 3,292 E | 3,319 E | 3,345 E | 3,374 E | 13,330 E |
| 2020 | 5,187 A | 3,260 E | 3,294 E | 3,280 E | 13,223 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 | \$1.18 E | \$1.20 E | \$1.35 E | \$5.06 E |
| 2020 | \$1.34 A | \$1.01 E | \$1.09 E | \$1.23 E | \$4.68 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 05/14/2020. The reports text is as of 05/15/2020.

## Overview

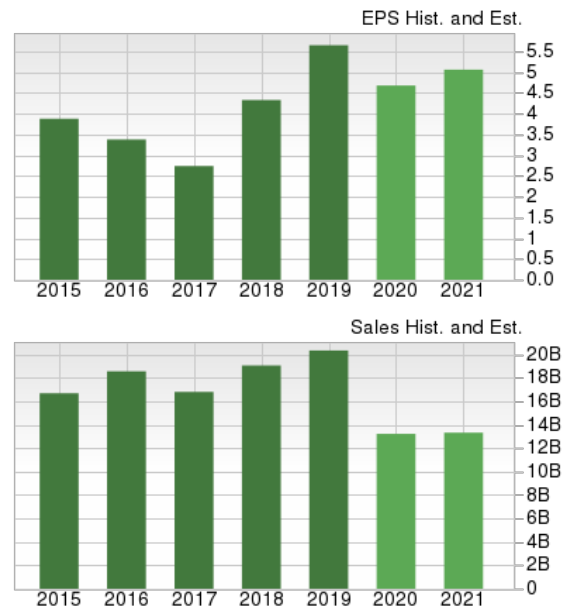
Founded in 1810 and headquartered in Connecticut, The Hartford Financial Services Group Inc. is one of the major multi-line insurance and investment companies in the country, providing investment products, group life and group disability insurance, property and casualty (P&C) insurance and mutual funds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



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## Reasons To Buy:

- ▲ **Price Performance:** In a year's time, shares of the company have underperformed its industry. However, its strong fundamentals would likely help the stock bounce back going forward.
- ▲ **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 9.3%, reflecting the company's efficiency in using shareholders' funds.
- ▲ **Balance Sheet Strength:** The company's capital position remains impressive. Total debt is 22.2% (almost unchanged sequentially) of its total equity, lower than the industry average of 30.3%. Its times interest earned now is 9.2X (compared with 10.9 sequentially), better than the industry average of 8.9X. Thus, its financial flexibility looks encouraging.

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 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.

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

## 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 on the back of lower auto frequency claim and lower non-CAT property weather losses in homeowners.

##### 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, riding on better group life loss ratio. However, the same was partly offset by COVID-19-related claims.

### 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. This was mainly due to a change from net realized capital gains in 2019 to net realised capital losses in 2020, reduction in net investment income and a change from earnings in 2019 to loss in 2020 on its retained equity interest in Talcott Resolution.

### 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.

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**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%.

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## Recent News

### Hartford Financial's New Premium Payback Plan to Aid Customers — Apr 10, 2020

Hartford Financial provides relief to customers by introducing the COVID-19 Personal Auto Payback Plan. This new plan will provide 15% refund on the April-May personal auto insurance premiums of customers.

### Hartford Financial Declares Quarterly Dividend — Feb 20, 2020

The company's board of directors recently approved a dividend of \$375 on each of the Series G preferred stock, payable May 15, 2020 to its Series G preferred shareholders of record as of May 1, 2020.

## Valuation

Hartford Financial shares are down 45.2% and 37.1% 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 34% and 30% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.6% and 23.4%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 0.3% in the past year.

The stock is currently trading at 6.91x forward 12-month earnings, which compares to 7.54x for the Zacks sub-industry, 14.69x for the Zacks sector and 20.67x 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 7.28x 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       | 6.91  | 7.54         | 14.69  | 20.67   |
|                           | 5-Year High   | 15.77 | 12.61        | 16.19  | 20.79   |
|                           | 5-Year Low    | 4.86  | 6.62         | 11.58  | 15.18   |
|                           | 5-Year Median | 11    | 10.16        | 13.95  | 17.45   |
| P/S F12M                  | Current       | 0.9   | 0.88         | 5.81   | 3.22    |
|                           | 5-Year High   | 1.46  | 1.74         | 6.7    | 3.44    |
|                           | 5-Year Low    | 0.67  | 0.88         | 4.98   | 2.54    |
|                           | 5-Year Median | 1.08  | 1.28         | 6.06   | 3.01    |
| P/B TTM                   | Current       | 0.8   | 1.1          | 2      | 3.75    |
|                           | 5-Year High   | 1.56  | 1.98         | 2.9    | 4.55    |
|                           | 5-Year Low    | 0.59  | 0.85         | 1.71   | 2.84    |
|                           | 5-Year Median | 1.15  | 1.48         | 2.53   | 3.64    |

As of 05/14/2020

## Industry Analysis Zacks Industry Rank: Bottom 45% (138 out of 253)



## Top Peers

| Company (Ticker)                             | Rec     | Rank |
|--|---------|------|
| Aflac Incorporated (AFL)                     | Neutral | 3    |
| American International Group, Inc. (AIG)     | Neutral | 3    |
| The Allstate Corporation (ALL)               | Neutral | 2    |
| Chubb Limited (CB)                           | Neutral | 3    |
| CNO Financial Group, Inc. (CNO)              | Neutral | 3    |
| Kemper Corporation (KMPR)                    | Neutral | 2    |
| MetLife, Inc. (MET)                          | Neutral | 3    |
| Old Republic International Corporation (ORI) | Neutral | 4    |

| Industry Comparison Industry: Insurance - Multi Line |           |            |           | Industry Peers |           |           |
|--|-----------|------------|-----------|----------------|-----------|-----------|
|  | HIG       | X Industry | S&P 500   | AIG            | CB        | MET       |
| Zacks Recommendation (Long Term)                     | Neutral   | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                              | 3         | -          | -         | 3              | 3         | 3         |
| VGM Score  | D         | -          | -         | D              | B         | A         |
| Market Cap   | 11.92 B   | 2.80 B     | 18.95 B   | 22.19 B        | 44.62 B   | 28.89 B   |
| # of Analysts  | 5         | 2          | 14        | 6              | 8         | 5         |
| Dividend Yield                                       | 3.90%     | 3.25%      | 2.2%      | 4.97%          | 3.03%     | 5.78%     |
| Value Score  | B         | -          | -         | A              | B         | A         |
| Cash/Price   | 0.22      | 0.38       | 0.06      | 1.17           | 0.11      | 1.29      |
| EV/EBITDA  | 4.24      | 3.66       | 11.58     | 2.58           | 8.13      | 0.35      |
| PEG Ratio  | 0.73      | 1.08       | 2.60      | NA             | 0.99      | NA        |
| Price/Book (P/B)                                     | 0.80      | 0.79       | 2.59      | 0.37           | 0.85      | 0.41      |
| Price/Cash Flow (P/CF)                               | 4.80      | 6.72       | 10.20     | 2.47           | 8.39      | 5.42      |
| P/E (F1)   | 6.94      | 8.95       | 19.00     | 8.67           | 9.92      | 5.86      |
| Price/Sales (P/S)                                    | 0.57      | 0.72       | 1.93      | 0.43           | 1.24      | 0.40      |
| Earnings Yield                                       | 14.05%    | 10.85%     | 5.05%     | 11.53%         | 10.08%    | 17.06%    |
| Debt/Equity  | 0.29      | 0.27       | 0.75      | 0.58           | 0.26      | 0.21      |
| Cash Flow (\$/share)                                 | 6.94      | 3.27       | 7.01      | 10.45          | 11.78     | 5.87      |
| Growth Score   | F         | -          | -         | F              | B         | B         |
| Hist. EPS Growth (3-5 yrs)                           | 8.64%     | 8.44%      | 10.82%    | -1.48%         | -0.23%    | 4.04%     |
| Proj. EPS Growth (F1/F0)                             | -17.17%   | -1.99%     | -10.48%   | -35.26%        | -1.46%    | -11.13%   |
| Curr. Cash Flow Growth                               | 20.19%    | 9.34%      | 5.68%     | 41.46%         | 0.06%     | 6.34%     |
| Hist. Cash Flow Growth (3-5 yrs)                     | 2.69%     | 1.57%      | 8.52%     | -3.88%         | 8.77%     | -4.47%    |
| Current Ratio  | 0.29      | 0.48       | 1.27      | 0.27           | 0.31      | 0.16      |
| Debt/Capital   | 22.17%    | 21.84%     | 44.25%    | 36.41%         | 20.93%    | 17.08%    |
| Net Margin   | 8.33%     | 4.72%      | 10.54%    | 8.59%          | 10.21%    | 12.37%    |
| Return on Equity                                     | 13.25%    | 6.45%      | 16.29%    | 4.31%          | 8.69%     | 8.85%     |
| Sales/Assets   | 0.30      | 0.21       | 0.54      | 0.10           | 0.21      | 0.10      |
| Proj. Sales Growth (F1/F0)                           | -35.01%   | 0.00%      | -2.55%    | -4.23%         | -1.42%    | -3.61%    |
| Momentum Score                                       | C         | -          | -         | F              | D         | D         |
| Daily Price Chg                                      | 3.84%     | 0.09%      | 1.17%     | 3.21%          | 0.35%     | 3.44%     |
| 1 Week Price Chg                                     | 1.85%     | 0.18%      | 3.23%     | 15.69%         | 0.35%     | 1.56%     |
| 4 Week Price Chg                                     | -11.01%   | -3.30%     | 1.06%     | 11.13%         | -11.70%   | 2.84%     |
| 12 Week Price Chg                                    | -42.67%   | -37.13%    | -22.80%   | -48.27%        | -39.41%   | -39.12%   |
| 52 Week Price Chg                                    | -37.87%   | -34.19%    | -12.40%   | -50.68%        | -32.12%   | -33.19%   |
| 20 Day Average Volume                                | 3,049,971 | 183,980    | 2,553,422 | 8,037,297      | 3,568,639 | 6,954,721 |
| (F1) EPS Est 1 week change                           | 0.00%     | 0.00%      | 0.00%     | -6.80%         | 0.00%     | -1.45%    |
| (F1) EPS Est 4 week change                           | -10.41%   | -9.47%     | -5.57%    | -25.15%        | -6.06%    | -6.31%    |
| (F1) EPS Est 12 week change                          | -13.78%   | -20.27%    | -16.22%   | -37.08%        | -9.35%    | -10.87%   |
| (Q1) EPS Est Mthly Chg                               | -18.43%   | -15.47%    | -11.63%   | -27.79%        | -20.71%   | -31.19%   |

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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>B</b> |
| Growth Score   | <b>F</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>D</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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### Disclosures

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