

Travelers Companies (TRV)

\$93.29 (As of 05/06/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Travelers boasts a strong market presence in auto, homeowners' insurance, and commercial U.S. property-casualty insurance with an impressive inorganic growth story. High retention rate, increase in new business and positive renewal premium change bode well for growth. Travelers has been generating sufficient capital and prudently using it for growth initiatives and to boost shareholder value. The shares of the company have underperformed the industry in a year's time. However, exposure to catastrophe loss induces volatility in underwriting results. Also, rising debt level results in higher interest expenses, which, in turn, weigh on margin expansion. Travelers' first-quarter 2020 earnings of \$2.62 per share missed the Zacks Consensus Estimate by 9%. Nevertheless, the top line improved nearly 3% year over year in the quarter.

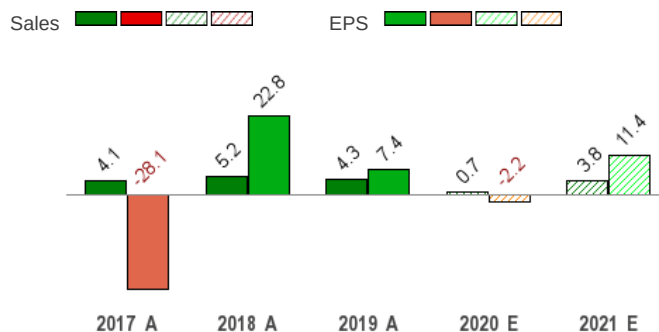
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$155.09 - \$76.99
20 Day Average Volume (sh)	1,814,540
Market Cap	\$23.6 B
YTD Price Change	-31.9%
Beta	0.88
Dividend / Div Yld	\$3.40 / 3.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 49% (123 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.0%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-7.9%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	9.9
P/E F1	9.9
PEG F1	1.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,203 E	8,111 E	8,277 E	8,515 E	32,909 E
2020	8,006 A	7,726 E	8,050 E	8,050 E	31,703 E
2019	7,618 A	7,809 A	8,013 A	8,051 A	31,468 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.00 E	\$1.97 E	\$2.24 E	\$3.24 E	\$10.46 E
2020	\$2.62 A	\$1.62 E	\$2.15 E	\$2.96 E	\$9.39 E
2019	\$2.83 A	\$2.02 A	\$1.43 A	\$3.32 A	\$9.60 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 05/06/2020. The reports text is as of 05/07/2020.

Overview

Established in 1853 and is based in New York, NY, The Travelers Companies Inc., a holding company, is principally engaged, through its subsidiaries, in providing a wide variety of property and casualty insurance and surety products and services to businesses, organizations and individuals in the United States. and select international markets.

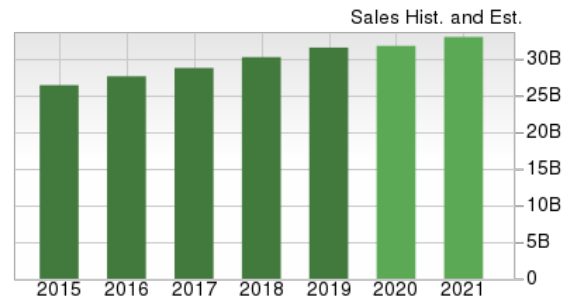
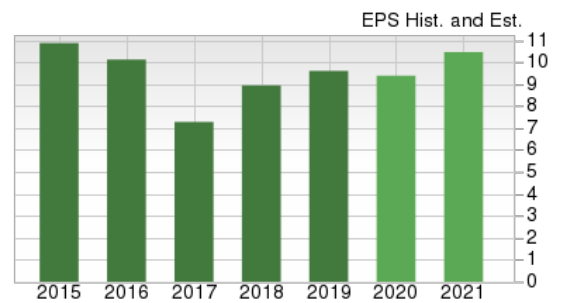
Travelers operates its business through three segments: The **Business Insurance** segment (52.3% of 2019 net premium written) offers a broad array of property and casualty insurance and insurance-related services to its customers, primarily in the United States, as well as in Canada, the United Kingdom, the Republic of Ireland, Brazil and throughout other parts of the world as a corporate member of Lloyd's.

Its products include offers workers' compensation, commercial automobile and property, general liability, commercial multi-peril, employers' liability, public and product liability, professional indemnity, marine, aviation, onshore and offshore energy, construction, terrorism, personal accident, and kidnap and ransom insurance products.

This segment operates through select accounts, which serve small businesses; commercial accounts that serve mid-sized businesses; national accounts, which serve large companies; and national property and other that serve large and mid-sized customers, commercial transportation industry, and agricultural businesses, as well as markets and distributes its products through brokers, wholesale agents, program managers, and specialized retail agents.

The **Personal Insurance** segment (37.6%) offers property and casualty insurance covering personal risks, primarily automobile and homeowners insurance to individuals primarily in the United States, as well as in Canada. The company distributes its products primarily through independent agencies and brokers.

The **Bond & Specialty Insurance** segment (10.1%) provides surety, fidelity, management and professional liability, and other property and casualty insurance products and related risk management services to its customers in the United States and certain specialty insurance products in Canada, the United Kingdom, the Republic of Ireland and Brazil.



Reasons To Buy:

- ▲ Shares of Travelers have underperformed the industry in a year's time. The stock has lost 34.2% compared with the industry's decline of 19.8%. Nevertheless, solid fundamentals are likely to drive shares in the days ahead.
- ▲ Travelers is one of the leading writers of auto and homeowners' insurance plus commercial U.S. property-casualty insurance. Quantum Auto 2.0 continues to drive results in Agency Auto as this lower-cost, lower-priced auto insurance product is live in all the planned markets. Quantum Home 2.0 is now available in 28 states and is likely to be rolled in most of the remaining states later in 2019. Optima, Travelers' new strategic Personal Line auto product in Canada is also contributing to results. Going by the progress and continued growth at the profitable agency auto and homeowners business, the company remains optimistic about the trajectory of its personal lines of business. Moreover, this auto insurer remains well poised to gain from declining claims amid a reduction in the number of vehicles plying on roads due to the COVID-19 pandemic. The reduction in travel has led to lower claims, which bodes well for Travelers. We remain optimistic regarding the company's focus on implementing pricing and other actions to continue increasing returns and more importantly, improving profitability.
- ▲ Travelers' commercial businesses continue to perform well on the back of stability in the markets where it operates as well as the execution of its strategies. The company has successfully maintained historically high levels of retention and increase in new business, while achieving a positive renewal premium change.
- ▲ Travelers maintains a conservative balance sheet among its peers. It has been consistently increasing its book value for the past eight years. The other positive factors that inspire our confidence in the stock are its consistent efforts to return excess capital to shareholders via dividend increases and share buybacks.
- ▲ With respect to dividend hike, the board of directors raised quarterly dividend by 4% in first-quarter 2020. This is the 16th straight year of dividend increase and reflects five-year CAGR of 10.4% (2014-2019). Its current dividend yield of 3.5% is better than the industry average of 0.5%. The company generates strong cash flow and has solid holding company liquidity. It is also diligently working toward improving leverage ratios.

A compelling product portfolio, high retention rate, pricing gains, positive renewal rate changes, strong capital position, inorganic growth and prudent underwriting practices position Travelers well.

Reasons To Sell:

- ▼ Exposure to catastrophe events always remains a headwind for property and casualty insurers. The company has been witnessing high level of catastrophe losses with combined ratio deterioration. A low interest rate environment in the United States due to the COVID-19 pandemic is adding to the insurer's woes as it is likely to keep margins under pressure.
 - ▼ Over the last two years, Travelers has been witnessing a rising debt level that has induced higher interest expenses, thereby restricting margin expansion to an extent. In March 2019, the company issued new debts to capitalize on the still low rate environment. Debts have increased marginally to \$6.6 billion in first-quarter 2020. As of Mar 31, 2020, the company's total debt to total capital is 20.6%, higher than the prior-quarter's figure of 20.2%. Further, the company's times interest earned of 9.5 as on Mar 31, 2020 is lower when compared with the prior-quarter's figure of 10.1, implying that its earnings are not sufficient to cover interest obligations.
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Exposure to catastrophe loss inducing underwriting volatility and high debt level leading to higher interest expenses restricting margin expansion are some of the headwinds faced by the company.

Last Earnings Report

Travelers Q1 Earnings Lag Estimates, Revenues Rise Y/Y

Travelers' first-quarter 2020 core income of \$2.62 per share missed the Zacks Consensus Estimate by 9%. The bottom line deteriorated 7.4% year over year. The quarter benefited from improved net investment income, better premiums and operational excellence.

Behind the Q1 Headlines

Travelers' total revenues rose nearly 3% from the year-ago quarter figure to \$7.9 billion. However, the top-line figure missed the Zacks Consensus Estimate by 1.6%.

Record gross written premiums of \$8.2 billion grew 4%, accounting for growth in all segments.

Net written premiums grew 4.1% year over year to \$7.3 billion owing to growth in each business segment, namely Business Insurance, Bond & Specialty Insurance and Personal Insurance. Net investment income increased 29% year over year to \$611 million.

Travelers witnessed underwriting gain of \$288 million, down 107% from the year-earlier period. Combined ratio deteriorated 180 basis points (bps) year over year to 95.5% attributable due to higher catastrophe losses and lower net favorable prior year reserve development, partially offset by lower underlying combined ratio.

At the end of the first quarter, statutory capital and surplus were \$20.808 billion and debt-to-capital ratio (excluding after-tax net unrealized investment gains) was 21.9%. Notably, this was within the company's target range of 15-25%.

Adjusted book value per share was \$92.63, down 0.1% from 2019 end. Core return on equity was 11.5%, down 150 basis points (bps) year over year.

Segment Update

Personal Insurance: Net written premiums of \$2.5 billion increased 8% year over year driven by strong performance at Agency Automobile, Agency Homeowners and Other business.

Combined ratio improved 190 bps year over year to 88.2% due to lower underlying combined ratio, partially offset by lower net favorable prior year reserve development and higher catastrophe losses.

Segment income of \$336 million surged 58% from the year-ago quarter's level driven by higher underlying underwriting gain, partially offset by lower net favorable prior year reserve development and higher catastrophe losses.

Bond & Specialty Insurance: Net written premiums rose 13% year over year to \$663 million, primarily backed by continued strong retention, increased levels of renewal premium change, strong new business in management liability and continued strong production in surety.

Combined ratio deteriorated 480 bps year over year to 85.9% owing to a higher underlying combined ratio and lower net favorable prior year reserve development, partially offset by lower catastrophe losses.

Segment income dropped 16% year over year to \$122 million on lower underlying underwriting gain.

Business Insurance: Net written premiums increased 1% year over year to about \$4.2 billion.

Combined ratio deteriorated 410 bps year over year to 102.2%, attributable to higher catastrophe losses and a higher underlying combined ratio, partially offset by net favorable prior year reserve development in the current quarter compared to net unfavorable prior year reserve development in the prior-year quarter.

Segment income of \$289 million was down 125% year over year due to higher catastrophe losses and a lower underlying underwriting gain, partially offset by net favorable prior year reserve development in the current quarter compared to net unfavorable prior year reserve development in the prior year quarter, and higher net investment income.

Dividend and Share Repurchase Update

The property & casualty insurer returned total capital of \$681 million in the reported quarter. It repurchased 3.8 million shares worth \$471 million. The company is now left with \$1.36 billion worth shares for repurchase under its existing authorization at the end of the first quarter.

The company's board approved a quarterly dividend of 85 cents per share, reflecting 4% increase from the prior payout. The dividend will be paid out on Jun 30, 2020 to shareholders of record at the close of business as of Jun 10, 2020. Debt-to-capital ratio (excluding after-tax net unrealized investment gains) was 21.9%. Notably, this was within the company's target range of 15-25%.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	-0.43%
EPS Surprise	-9.03%
Quarterly EPS	2.62
Annual EPS (TTM)	9.39

Recent News

Travelers Rewards Customers Due to Reduced Driving – Apr 8, 2020

Travelers has initiated a Stay-at-Home Auto Premium Credit program. Subject to customary approvals, the program plans to reward its personal auto insurance customers by refunding an amount in their accounts. The amount will be equal to 15% of auto premiums payable by members for April and May.

Not only for its members, but the company also intends to provide financial assistance to its agents and brokers, as they offer invaluable guidance to its customers. As part of its Distribution Support Plan, the company has speeded up commission payments to its distribution partners. This has provided significant liquidity to the customers during this crisis. By doing so, Travelers is providing a significant cash flow of nearly \$100 million to its agents and brokers.

Travelers Strengthens Foothold in Texas With Traverse – Mar 5, 2020

The Travelers Companies, Inc. announced the introduction of its personal insurance product, Traverse, in Texas, which was first unveiled in New York in 2018. Apart from submitting claims online, Traverse enables clients to amend policy requirements per their needs. Hence, with the product, the company intends to satisfy the continually changing buying habits of consumers.

Valuation

Travelers shares are down 31.9% in the year-to-date period and 34.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 25.1% and 28.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 19.8% and 22.6%, respectively.

The S&P 500 index are down 11.5% in the year-to-date period and 1.5% in the past year.

The stock is currently trading at 0.94x trailing 12-month book value, which compares to 0.99x for the Zacks sub-industry, 2.03x for the Zacks sector and 3.78x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.72x and as low as 0.81x, with a 5-year median of 1.43x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 0.99x book value.

The table below shows summary valuation data for TRV

Valuation Multiples - TRV					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.94	0.99	2.03	3.78
	5-Year High	1.72	1.67	2.9	4.55
	5-Year Low	0.81	0.93	1.71	2.84
	5-Year Median	1.43	1.46	2.53	3.64
P/S F12M	Current	0.73	1.62	4.98	3.21
	5-Year High	1.39	11.26	6.7	3.44
	5-Year Low	0.63	1.55	4.98	2.54
	5-Year Median	1.20	1.88	6.06	3.01
P/E F12M	Current	9.56	21.3	14.69	20.52
	5-Year High	20.03	31.55	16.18	20.52
	5-Year Low	7.77	21.07	11.24	15.19
	5-Year Median	12.06	25.6	13.94	17.44

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Allstate Corporation (ALL)	Neutral	2
Axis Capital Holdings Limited (AXS)	Neutral	3
Chubb Limited (CB)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
CNA Financial Corporation (CNA)	Neutral	4
The Progressive Corporation (PGR)	Neutral	2
Everest Re Group Ltd (RE)	Neutral	4
WR Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	TRV	X Industry	S&P 500	ALL	CB	PGR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	B	-	-	A	A	A
Market Cap	23.59 B	1.07 B	19.11 B	31.88 B	42.99 B	44.59 B
# of Analysts	8	2	14	9	8	10
Dividend Yield	3.52%	1.30%	2.2%	2.13%	3.15%	0.52%
Value Score	B	-	-	A	B	B
Cash/Price	0.19	0.27	0.06	0.15	0.11	0.06
EV/EBITDA	2.89	4.71	11.69	5.04	7.88	8.43
PEG Ratio	1.04	1.65	2.48	1.24	0.96	1.65
Price/Book (P/B)	0.94	0.89	2.58	1.44	0.82	3.22
Price/Cash Flow (P/CF)	3.05	8.08	10.40	7.47	8.08	10.40
P/E (F1)	10.28	10.90	18.81	9.30	9.56	12.08
Price/Sales (P/S)	0.74	0.72	1.97	0.73	1.20	1.14
Earnings Yield	10.07%	8.71%	4.99%	10.75%	10.46%	8.28%
Debt/Equity	0.26	0.25	0.75	0.30	0.26	0.39
Cash Flow (\$/share)	30.61	3.12	7.01	13.58	11.78	7.33
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-4.52%	3.85%	10.87%	16.31%	-0.23%	35.17%
Proj. EPS Growth (F1/F0)	-2.24%	5.40%	-9.86%	4.63%	-1.46%	-6.16%
Curr. Cash Flow Growth	3.77%	5.61%	5.88%	30.84%	0.06%	48.16%
Hist. Cash Flow Growth (3-5 yrs)	-1.19%	7.31%	8.55%	9.17%	8.77%	24.96%
Current Ratio	0.38	0.43	1.25	0.31	0.31	0.39
Debt/Capital	20.65%	19.06%	44.23%	21.53%	20.93%	28.14%
Net Margin	7.61%	5.76%	10.87%	9.38%	10.21%	9.18%
Return on Equity	9.61%	8.13%	16.36%	17.53%	8.69%	26.80%
Sales/Assets	0.29	0.31	0.55	0.37	0.21	0.72
Proj. Sales Growth (F1/F0)	0.67%	0.00%	-2.18%	1.67%	-1.42%	2.07%
Momentum Score	B	-	-	A	B	B
Daily Price Chg	-3.68%	-1.80%	-1.27%	-0.66%	-4.90%	-2.37%
1 Week Price Chg	-4.73%	-1.56%	0.53%	-1.68%	-2.34%	-8.07%
4 Week Price Chg	-11.10%	-5.82%	0.68%	4.35%	-16.89%	-2.08%
12 Week Price Chg	-31.26%	-28.63%	-22.30%	-18.02%	-41.88%	-8.47%
52 Week Price Chg	-34.09%	-26.15%	-11.55%	6.46%	-33.29%	3.63%
20 Day Average Volume	1,814,540	125,101	2,470,143	2,099,172	3,068,077	3,141,644
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.89%	-7.14%	-6.52%	6.61%	-8.32%	16.76%
(F1) EPS Est 12 week change	-9.48%	-12.50%	-14.84%	6.62%	-9.25%	16.24%
(Q1) EPS Est Mthly Chg	-16.83%	-10.29%	-12.48%	3.18%	-23.21%	27.35%

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	C
Momentum Score	B
VGM Score	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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