

Travelers Companies (TRV)

\$140.91 (As of 01/21/20)

Price Target (6-12 Months): **\$148.00**

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: A

Growth: D

Momentum: C

Summary

Shares of The Travelers have outperformed the industry in a year's time. 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. The company has also witnessed an increase in investment income over the past few years. The new catastrophe reinsurance treaty will continue to aid net premium written growth. Travelers has been generating sufficient capital and prudently using it for growth initiatives and to boost shareholder value. 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.

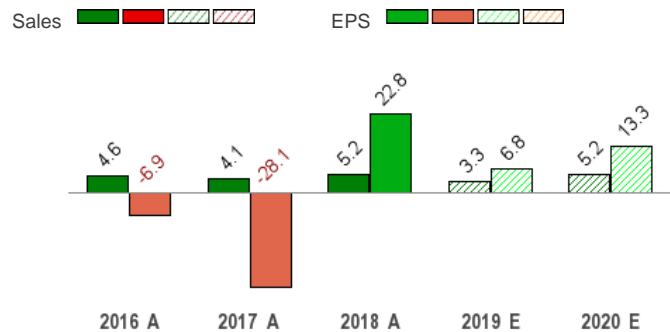
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$155.09 - \$120.60
20 Day Average Volume (sh)	982,252
Market Cap	\$36.4 B
YTD Price Change	2.9%
Beta	0.90
Dividend / Div Yld	\$3.28 / 2.3%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 30% (76 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-39.9%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	01/23/2020
Earnings ESP	1.4%
P/E TTM	16.8
P/E F1	13.0
PEG F1	1.3
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	8,019 E	8,138 E	8,234 E	8,337 E	32,789 E
2019	7,618 A	7,809 A	8,013 A	7,980 E	31,160 E
2018	7,297 A	7,441 A	7,694 A	7,736 A	30,168 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.93 E	\$2.16 E	\$2.20 E	\$3.30 E	\$10.82 E
2019	\$2.83 A	\$2.02 A	\$1.43 A	\$3.23 E	\$9.55 E
2018	\$2.46 A	\$1.81 A	\$2.54 A	\$2.13 A	\$8.94 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 01/21/2020. The reports text is as of 01/22/2020.

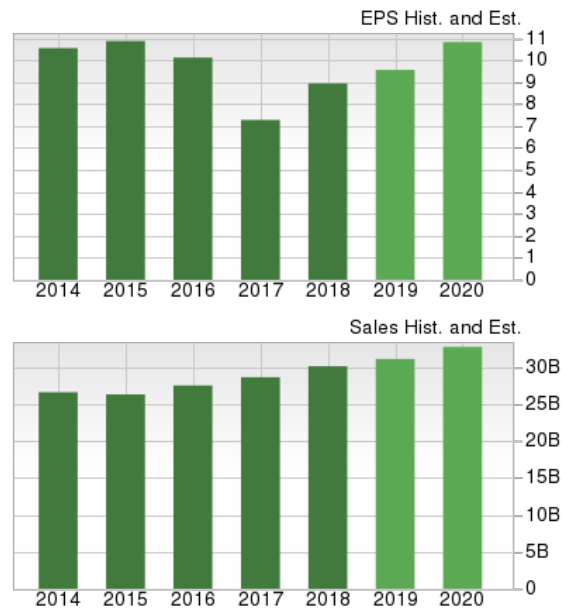
Overview

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 (54% of 2018 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 **Bond & Specialty Insurance** segment (9.1%) 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.

The **Personal Insurance** segment (36.9%) 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.



Reasons To Buy:

- ▲ Shares of Travelers have outperformed the industry in a year's time. The stock has gained 15.2%, compared with the industry's rally of 14.3%. Solid fundamentals should continue to help the stock retain the momentum.
- ▲ 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. The company remains focused 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 has always considered mergers and acquisitions as a fit means to grow inorganically. The acquisitions of The Dominion of Canada General Insurance Company and a 95% stake in the Brazilian surety insurance market leader, J.Malucelli Participacoes Seguros e Resseguros helped diversify business while UK-based Simply Business buyout helped to gain efficient access to cater to the thriving and substantial microbusiness market in the United States and across the world in future. With solid financial strength and flexibility, we expect Travelers to pursue strategic acquisitions that would help it to ramp up its growth profile.

Travelers has inked a deal with Amazon to introduce an industry-first digital storefront. This will help create new opportunities for the company and its agents to attract and serve customers while assisting them to opt for a more proactive approach in terms of home safety in an increasingly digital world.

- ▲ The company's investment income has increased over the last three years. The momentum continued through the first nine months of 2019. The company expects after-tax fixed income net investment income in the fourth quarter to be flat, when compared to the year-ago quarter as benefit from higher levels of invested assets will be largely offset by lower reinvestment rates.
- ▲ 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. In the first nine months of 2019, the company returned \$590 million.

With respect to dividend hike, the board of directors raised quarterly dividend by 6.5% in the first quarter of 2019. This is the 15th straight year of dividend increase and reflects 15-year CAGR of more than 9%. Its current dividend yield of 2.4% better the industry average of 0.4%. 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. The first nine months of 2019 witnessed underwriting gain of \$320 million, down 41.4% from the year-earlier period. Combined ratio deteriorated 110 basis points year over year to 97.9%. The company also has a new catastrophe reinsurance treaty for 2019. We wait to see if this positive momentum continues in the near term as the exposure to catastrophe loss remains a concern.
- ▼ 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. The company must service its debt uninterruptedly; else its creditworthiness might be dented. The company's debt-to-equity ratio is pegged at 25.6%, almost in line with the industry average. The interest coverage ratio — a measure of financial strength — is 9.1, lower than the industry average of 9.9.

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' Q3 Earnings Miss Estimates, Decline Y/Y

The Travelers Companies' third-quarter 2019 core income of \$1.43 per share missed the Zacks Consensus Estimate of \$2.38 by 39.9%. The bottom line declined 43.7% year over year. Shares of the company fell 2.2% after it posted lower-than-expected earnings.

The year-over-year decline in earnings can largely be attributed to net unfavorable prior year reserve development, including the impact of an increasingly challenging tort environment. Underlying underwriting results benefited from 4% growth in earned premiums and expense management.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	1.95%
EPS Surprise	-39.92%
Quarterly EPS	1.43
Annual EPS (TTM)	8.41

Behind the Q3 Headlines

Travelers' total revenues rose 4% from the year-ago quarter to \$8 billion.

Net written premiums grew 7% year over year to a record \$7.6 billion owing to increase in each of the business segments, namely Business and International Insurance, Bond & Specialty Insurance and Personal Insurance.

Net investment income decreased 24% year over year to \$622 million.

Travelers incurred underwriting loss of \$149 million against underwriting income of \$198 million in the year-earlier period. Combined ratio deteriorated 490 basis points (bps) year over year to 101.5%, attributable to net unfavorable prior year reserve development and a higher underlying combined ratio, partially offset by lower catastrophe losses.

At the end of the third quarter, statutory capital and surplus were \$20.78 billion. Debt-to-capital ratio (excluding after-tax net unrealized investment gains) was 22%, within the company's target range of 15-25%.

Adjusted book value per share was \$90.09, up 3% from 2018 end.

Core return on equity was 6.5%, down 550 bps year over year.

Segment Update

Personal Insurance: Net written premiums of \$2.9 billion increased 7% year over year driven by solid performance at Agency Automobile as well as Agency Homeowners and Other.

Combined ratio deteriorated 80 bps year over year to 98% due to higher underlying combined ratio, partially offset by lower catastrophe losses and higher net favorable prior year reserve development.

Segment income of \$131 million declined 14.4% year over year owing to lower underlying underwriting gain.

Bond & Specialty Insurance: Net written premiums rose 13% year over year to \$728 million, primarily backed by continued strong retention, increased levels of renewal premium change and strong new business in management liability and continued strong surety production.

Combined ratio deteriorated 1310 bps year over year to 83.3% owing to lower net favorable prior year reserve development and a higher underlying combined ratio, partially offset by lower catastrophe losses.

Segment income dropped 29.1% year over year to \$139 million on lower net favorable prior year reserve development and lower underlying underwriting gain.

Business Insurance: Net written premiums increased 7% year over year to \$3.9 billion, reflecting continued strong retention, higher renewal premium change and higher levels of new business.

Combined ratio deteriorated 640 bps year over year to 107.7% owing to higher net unfavorable prior year reserve development and a higher underlying combined ratio, partially offset by lower catastrophe losses.

Segment income of \$179 million was down 60.2% year over year. The downside was due to higher net unfavorable prior year reserve development, lower net investment income and a slightly lower underlying underwriting gain, partially offset by lower catastrophe losses.

Dividend and Share Repurchase Update

The property & casualty insurer returned \$590 million in the reported quarter. It repurchased 2.6 million shares worth \$375 million. The company is now left with \$2.161 billion worth of shares under its existing authorization.

The company's board approved a quarterly dividend of 82 cents per share. The dividend will be paid out on Dec 31, 2019 to shareholders of record at the close of business as of Dec 10, 2019.

Valuation

Travelers shares are up 15.2% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.3% and 12.2%, respectively.

The S&P 500 index are up nearly 25.3% in the past year.

The stock is currently trading at 1.42X trailing 12-month book value, which compares to 1.44X for the Zacks sub-industry, 2.84X for the Zacks sector and 4.54X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.72X and as low as 1.22X, with a 5-year median of 1.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$148 price target reflects 1.49X trailing 12- month 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	1.42	1.44	2.84	4.54
	5-Year High	1.72	1.67	2.89	4.55
	5-Year Low	1.22	1.26	1.83	2.85
	5-Year Median	1.44	1.47	2.51	3.61
P/S F12M	Current	1.11	1.67	6.53	3.56
	5-Year High	1.39	11.26	6.61	3.56
	5-Year Low	0.95	1.55	5.2	2.54
	5-Year Median	1.21	1.92	6.04	3
P/E F12M	Current	12.98	26.8	14.63	19.13
	5-Year High	20.03	31.55	16.21	19.34
	5-Year Low	9.9	22.77	12.01	15.17
	5-Year Median	12.01	25.7	13.98	17.44

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 255)



Top Peers

W.R. Berkley Corporation (WRB)	Outperform
The Allstate Corporation (ALL)	Neutral
Chubb Limited (CB)	Neutral
Cincinnati Financial Corporation (CINF)	Neutral
CNA Financial Corporation (CNA)	Neutral
The Progressive Corporation (PGR)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
Axis Capital Holdings Limited (AXS)	Underperform

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	TRV Neutral	X Industry	S&P 500	ALL Neutral	CB Neutral	PGR Neutral
VGM Score	B	-	-	B	A	B
Market Cap	36.37 B	1.98 B	24.43 B	38.16 B	69.22 B	44.68 B
# of Analysts	8	2	13	8	8	6
Dividend Yield	2.33%	0.98%	1.75%	1.70%	1.96%	0.52%
Value Score	A	-	-	A	C	B
Cash/Price	0.14	0.17	0.04	0.15	0.06	0.03
EV/EBITDA	4.45	9.45	14.00	11.71	12.54	13.25
PEG Ratio	1.31	1.72	2.06	1.38	1.39	1.93
Price/Book (P/B)	1.42	1.27	3.39	1.65	1.27	3.28
Price/Cash Flow (P/CF)	4.90	13.93	13.69	12.07	13.19	15.40
P/E (F1)	13.03	13.84	19.00	11.46	13.88	14.15
Price/Sales (P/S)	1.16	1.04	2.68	0.89	2.00	1.23
Earnings Yield	7.68%	7.22%	5.26%	8.73%	7.21%	7.07%
Debt/Equity	0.26	0.21	0.72	0.29	0.24	0.32
Cash Flow (\$/share)	28.75	3.05	6.94	9.76	11.58	4.96
Growth Score	D	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	-5.81%	-0.55%	10.60%	13.91%	-1.51%	26.87%
Proj. EPS Growth (F1/F0)	13.27%	9.59%	7.57%	-1.45%	9.63%	4.39%
Curr. Cash Flow Growth	8.43%	9.94%	14.00%	5.36%	12.66%	55.42%
Hist. Cash Flow Growth (3-5 yrs)	-1.60%	7.23%	9.00%	1.93%	8.90%	19.35%
Current Ratio	0.38	0.44	1.23	0.30	0.31	0.36
Debt/Capital	20.39%	17.79%	42.99%	20.23%	19.94%	24.69%
Net Margin	7.57%	5.34%	11.15%	6.57%	10.48%	8.69%
Return on Equity	9.13%	6.81%	17.16%	13.83%	8.60%	26.09%
Sales/Assets	0.29	0.31	0.55	0.37	0.20	0.72
Proj. Sales Growth (F1/F0)	5.23%	4.75%	4.05%	4.46%	4.69%	10.15%
Momentum Score	C	-	-	D	A	F
Daily Price Chg	0.13%	-0.19%	-0.27%	0.21%	-0.62%	0.17%
1 Week Price Chg	3.85%	1.93%	2.29%	3.61%	1.79%	3.53%
4 Week Price Chg	3.74%	1.45%	2.13%	5.96%	-0.78%	6.34%
12 Week Price Chg	9.29%	3.30%	6.99%	8.85%	2.77%	9.51%
52 Week Price Chg	15.16%	10.68%	21.25%	37.20%	16.46%	20.76%
20 Day Average Volume	982,252	100,911	1,415,064	1,185,586	1,242,225	2,756,555
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.54%	0.06%	-0.28%
(F1) EPS Est 4 week change	-0.01%	0.00%	0.00%	0.75%	0.02%	-0.07%
(F1) EPS Est 12 week change	-2.38%	0.00%	-0.34%	1.16%	-0.87%	-2.92%
(Q1) EPS Est Mthly Chg	1.57%	0.00%	0.00%	-0.93%	0.34%	1.47%

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	A
Growth Score	D
Momentum Score	C
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.

Disclosures

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