

Travelers Companies (TRV)

\$135.16 (As of 02/21/20)

Price Target (6-12 Months): **\$142.00**

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:A

Value: B

Growth: A

Momentum: C

Summary

The Travelers Companies' earnings of \$3.32 per share beat the Zacks Consensus Estimate of \$3.23 by 2.8% and improved 55.9% year over year. Its shares have underperformed 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 earnings.

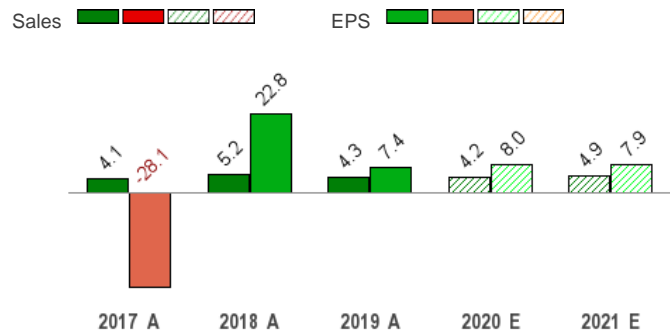
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$155.09 - \$128.29
20 Day Average Volume (sh)	1,203,361
Market Cap	\$34.5 B
YTD Price Change	-1.3%
Beta	0.90
Dividend / Div Yld	\$3.28 / 2.4%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 39% (99 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-4.2%
Expected Report Date	04/16/2020
Earnings ESP	5.6%
P/E TTM	14.1
P/E F1	13.0
PEG F1	1.3
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,423 E	8,514 E	8,621 E	8,719 E	34,395 E
2020	8,052 E	8,163 E	8,256 E	8,350 E	32,781 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	\$3.08 E	\$2.14 E	\$2.42 E	\$3.56 E	\$11.19 E
2020	\$2.80 E	\$2.02 E	\$2.21 E	\$3.30 E	\$10.37 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 02/21/2020. The reports text is as of 02/24/2020.

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.

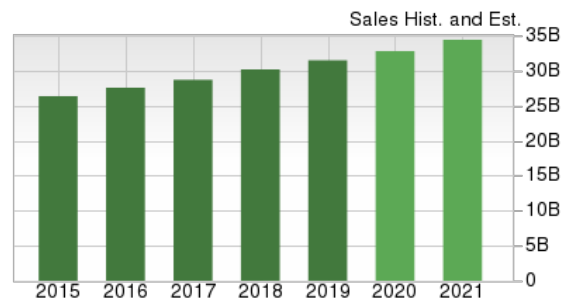
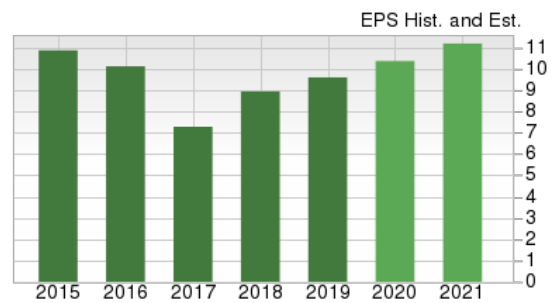
Travelers operates its business through three segments: The **Business Insurance** segment (52.3% of 2019 net premium written) offers a broad array of property and casualty insurance and insurance-related services to its customers, primarily in the United States, as well as in Canada, the United Kingdom, 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 **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.

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.



Reasons To Buy:

- ▲ Shares of Travelers have underperformed the industry in a year's time. The stock has rallied 2% compared with the industry's improvement of 13.1%. 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.

- ▲ The company's investment income has increased over the last three years. However, it remained almost unchanged in 2019.
- ▲ 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 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% betters 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.
- ▼ 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's debt-to-equity ratio is 25.3%, almost in line with the industry average.

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's Earnings Beat Estimates in Q4, Surge Y/Y

The Travelers Companies, fourth-quarter 2019 core income of \$3.32 per share beat the Zacks Consensus Estimate of \$3.23 by 2.8%. Moreover, the bottom line improved 55.9% year over year.

The quarter benefited from lower cat loss, better premiums and operational excellence.

Behind the Q4 Headlines

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

Net written premiums grew 6% year over year to a record \$7.1 billion owing to strength in each of the business segments, namely Business and International Insurance, Bond & Specialty Insurance and Personal Insurance. This marks the 12th consecutive quarter of premium growth across all the business segments.

Net investment income dipped 2% year over year to \$616 million.

Travelers' underwriting gain of \$513 million soared 280% year over year.

Combined ratio contracted 510 basis points (bps) year over year to 92.4%, attributable to lower cat loss. However, the same was partially offset by low net favorable prior-year reserve development and a higher underlying combined ratio.

At the end of the fourth quarter, statutory capital and surplus were \$21.33 billion. Debt-to-capital ratio (excluding after-tax net unrealized investment gains) was 21.7%, within the company's target range of 15-25%.

Adjusted book value per share was \$92.76, up 6% from the 2018-end level.

Core return on equity was 14.8%, expanding 480 bps year over year.

Segment Update

Personal Insurance: Net written premiums came in at \$2.7 billion, up 6% year over year.

Combined ratio contracted 1410 bps year over year to 88.5% owing to significantly low cat loss and higher net favorable prior-year reserve development.

Segmental income of \$327 million skyrocketed 922% year over year on the back of lower cat loss. Moreover, the underwriting gain saw an upside on business volumes.

Bond & Specialty Insurance: Net written premiums rose 9% year over year to \$714 million, primarily backed by continued strong retention, increased levels of renewal premium change, and strong new business in management liability and a steady strong surety production.

Combined ratio expanded 1380 bps year over year to 78.6% due to lower net favorable prior-year reserve development and a higher underlying combined ratio, partially offset by lower catastrophe losses.

Segment income dropped 24.1% year over year to \$167 million on lower net favorable prior-year reserve development.

Business Insurance: Net written premiums increased 5% year over year to \$3.7 billion, reflecting a consistently strong retention, higher renewal premium change and higher levels of new business.

Combined ratio contracted 190 bps year over year to 97.5% owing to significantly lower cat loss.

Segment income of \$448 million was up 14.6% year over year. This uptrend is attributable to significantly lower catastrophe loss. However, the same was offset by lower net favorable prior-year reserve development and a lower underlying underwriting gain.

Dividend and Share Repurchase Update

This property & casualty insurer returned \$588 million in the reported quarter. It repurchased 2.9 million shares worth of \$376 million.

The board approved a quarterly dividend of 82 cents per share to be paid out on Mar 31, 2020 to its shareholders of record at the close of business as of Mar 10, 2020.

Quarter Ending 12/2019

Report Date	Jan 23, 2020
Sales Surprise	0.89%
EPS Surprise	2.79%
Quarterly EPS	3.32
Annual EPS (TTM)	9.60

Valuation

Travelers shares are down 1.3% in the year-to-date period and up 2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 2.3% and 0.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.1% and 7.9%, respectively.

The S&P 500 index are up 3.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 1.3x trailing 12-month book value, which compares to 1.4x for the Zacks sub-industry, 2.8X for the Zacks sector and 4.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.7x and as low as 1.2x, with a 5-year median of 1.4x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$142 price target reflects 1.4x 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	1.35	1.45	2.84	4.61
	5-Year High	1.72	1.67	2.89	4.68
	5-Year Low	1.22	1.26	1.83	2.85
	5-Year Median	1.44	1.47	2.51	3.62
P/S F12M	Current	1.04	1.71	6.55	3.51
	5-Year High	1.39	11.26	6.65	3.51
	5-Year Low	0.95	1.55	5.39	2.54
	5-Year Median	1.21	1.89	6.04	3
P/E F12M	Current	12.89	26.9	14.89	19.09
	5-Year High	20.03	31.55	16.21	19.34
	5-Year Low	9.9	22.77	12.01	15.18
	5-Year Median	12.06	25.9	14.15	17.47

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	TRV Neutral	X Industry	S&P 500	ALL Neutral	CB Neutral	PGR Neutral
VGM Score	A	-	-	A	B	B
Market Cap	34.47 B	1.76 B	24.03 B	40.05 B	74.21 B	47.62 B
# of Analysts	9	2	13	9	8	10
Dividend Yield	2.43%	1.01%	1.76%	1.62%	1.83%	0.49%
Value Score	B	-	-	B	C	B
Cash/Price	0.15	0.18	0.04	0.11	0.02	0.04
EV/EBITDA	4.02	9.25	14.08	12.36	13.80	13.99
PEG Ratio	1.30	1.74	2.08	1.43	1.49	2.07
Price/Book (P/B)	1.33	1.20	3.29	1.69	1.34	3.48
Price/Cash Flow (P/CF)	4.42	13.36	13.42	10.62	15.01	16.42
P/E (F1)	12.93	14.08	19.00	11.93	14.90	15.16
Price/Sales (P/S)	1.09	1.06	2.64	0.90	2.10	1.22
Earnings Yield	7.67%	6.93%	5.26%	8.39%	6.71%	6.59%
Debt/Equity	0.25	0.21	0.70	0.28	0.24	0.32
Cash Flow (\$/share)	30.61	3.27	7.03	11.64	10.91	4.96
Growth Score	A	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-5.01%	2.32%	10.84%	16.31%	-0.89%	31.71%
Proj. EPS Growth (F1/F0)	8.00%	12.84%	7.09%	-0.61%	8.70%	-20.06%
Curr. Cash Flow Growth	3.77%	20.00%	6.72%	12.20%	-7.34%	55.42%
Hist. Cash Flow Growth (3-5 yrs)	-1.19%	7.23%	8.25%	5.86%	7.11%	19.35%
Current Ratio	0.39	0.44	1.22	0.28	0.34	0.42
Debt/Capital	20.18%	18.05%	42.37%	20.32%	19.94%	25.31%
Net Margin	8.30%	8.51%	11.56%	10.85%	12.61%	10.17%
Return on Equity	10.03%	7.74%	16.80%	16.05%	8.59%	30.68%
Sales/Assets	0.29	0.32	0.55	0.38	0.20	0.75
Proj. Sales Growth (F1/F0)	4.10%	3.83%	3.90%	3.71%	3.54%	10.21%
Momentum Score	C	-	-	A	B	F
Daily Price Chg	0.88%	0.00%	-0.83%	0.13%	0.37%	0.77%
1 Week Price Chg	1.29%	0.21%	1.65%	0.92%	1.12%	0.61%
4 Week Price Chg	0.72%	-0.59%	-0.37%	4.63%	7.67%	6.72%
12 Week Price Chg	-1.23%	0.90%	3.74%	10.35%	7.67%	11.38%
52 Week Price Chg	4.11%	1.49%	14.14%	30.64%	21.56%	12.97%
20 Day Average Volume	1,203,361	83,068	1,992,841	1,553,867	1,667,373	2,828,150
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.50%
(F1) EPS Est 4 week change	-4.20%	0.00%	-0.02%	0.25%	-0.15%	-0.07%
(F1) EPS Est 12 week change	-4.21%	0.00%	-0.17%	0.93%	-0.13%	-2.64%
(Q1) EPS Est Mthly Chg	-4.45%	0.00%	-0.48%	0.98%	0.09%	-2.74%

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	A
Momentum Score	C
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.