

## Travelers Companies (TRV)

**\$113.54** (As of 08/26/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

### Summary

Travelers' boasts a strong market presence in auto, homeowners' insurance, commercial U.S. property-casualty insurance with an impressive inorganic growth story. High retention rate, increase in new business, positive renewal premium change bode well. Its commercial businesses continue to perform well on the back of market stability. The company remains optimistic about the trajectory of its personal line of business given growth at the profitable agency auto and homeowners business. Also, it is poised to gain from declining claims due to reduction in number of vehicles plying on roads owing to pandemic. It generates sufficient capital and prudently uses it to boost shareholder value. Shares have underperformed the industry year to date. However, exposure to catloss induces earnings volatility. Higher leverage poses financial risk.

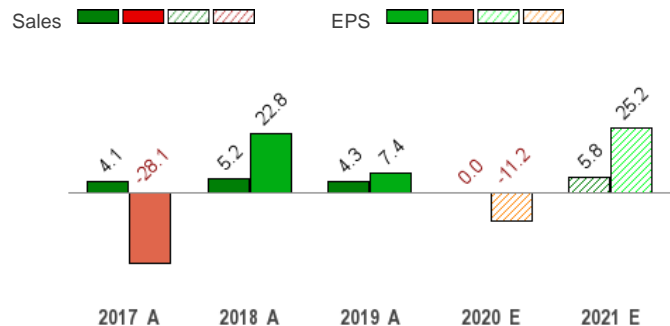
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$153.65 - \$76.99</b>
20 Day Average Volume (sh)	<b>1,204,286</b>
Market Cap	<b>\$28.7 B</b>
YTD Price Change	<b>-17.1%</b>
Beta	<b>0.86</b>
Dividend / Div Yld	<b>\$3.40 / 3.0%</b>
Industry	<b><u>Insurance - Property and Casualty</u></b>
Zacks Industry Rank	<b>Top 48% (120 out of 252)</b>

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



Last EPS Surprise	<b>0.0%</b>
Last Sales Surprise	<b>-4.5%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>10/27/2020</b>
Earnings ESP	<b>-1.7%</b>
P/E TTM	<b>15.8</b>
P/E F1	<b>13.3</b>
PEG F1	<b>1.3</b>
P/S TTM	<b>0.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,016 E	8,065 E	8,131 E	8,180 E	33,296 E
2020	8,006 A	7,401 A	8,037 E	8,013 E	31,482 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	\$2.99 E	\$2.06 E	\$2.45 E	\$3.28 E	\$10.68 E
2020	\$2.62 A	-\$0.20 A	\$3.30 E	\$2.81 E	\$8.53 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 08/26/2020. The reports text is as of 08/27/2020.

## 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.

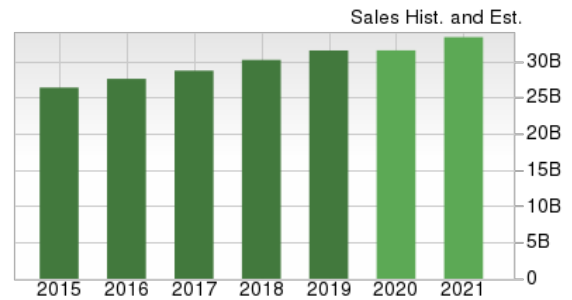
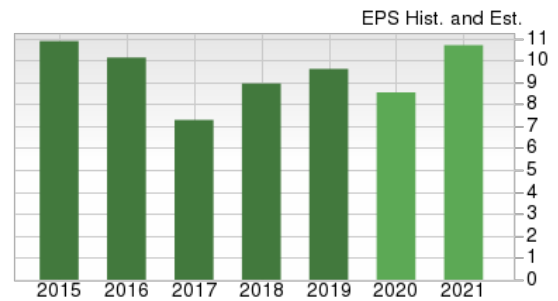
Travelers operates its business through three segments: The **Business Insurance** segment (52.3% of 2019 net premium written) offers a broad array of property and casualty insurance and insurance-related services to its customers, primarily in the United States, as well as in Canada, the United Kingdom,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



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## Reasons To Buy:

- ▲ Shares of Travelers have underperformed the industry year to date. The stock has lost 17.1% compared with the industry's decline of 8.2%. 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. 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. 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.
  - ▲ The company's investment income has increased over the last three years. Net investment income declined 28.5% in the first half of 2020 to \$879 million. The company expects the metric to decrease by approximately \$35 million to \$40 million after-tax per quarter, compared to the corresponding periods of 2019, for the remainder of 2020.
  - ▲ Travelers maintains a conservative balance sheet among its peers. It has been consistently increasing its book value for the past eight years. The company aims to generate increased earnings and capital, in excess of growth needs, and maintain balanced approach to rightsizing capital and growing book value per share over time as part of its long-term financial strategy.
- 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. The property & casualty insurer returned \$899 million to its shareholders in the first half of 2020, which includes \$471 million of share repurchases. Capacity remaining under the existing share repurchase authorization was \$1.361 billion at the end of the second quarter of 2020.
- ▲ 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 9.1% (2015-2020). Its current dividend yield of 2.9% 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.
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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.

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## 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. In the first half of 2020, catastrophe loss totaled \$1.2 billion, surging 112% from the year-ago period. COVID-19 and related economic conditions had a modest net impact on the underwriting result in the quarter. In the first half of 2020, combined ratio deteriorated 340 basis points (bps) year over year to 99.5% due to higher catastrophe losses. Underwriting income decreased 98.3% year over year to \$8 million in the first half of 2020.

The structure of the company's reinsurance programs is generally consistent with the prior year. It renewed the Northeast cat treaty effective Jul 1. Any changes to the cost or coverage terms of such programs will be effective after such dates.

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.

- ▼ 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. As of Jun 30, 2020, the company's long-term debt was \$7 million, up 7.5% from the 2019-end level, with total debt to total capital of 23.2%, deteriorating 50 bps from 2019 level and comparing unfavorably with the industry's measure of 1.3%. Further, the company's times interest earned of 7.4 as on Jun 30, 2020 was lower when compared with the 2019-end figure of 10.1, implying that its earnings are not sufficient to cover interest obligations.
  - ▼ Travelers has been witnessing rise in expenses over the past many quarters, which weighs on margins. In the first half of 2020, total expenses increased 5.8% to \$14.7 billion, primarily on higher claims and claim adjustment expenses, amortization of deferred acquisition costs and increased general and administrative expenses. In the second quarter, net margin contracted 180 bps sequentially and 280 bps year over year.
  - ▼ Travelers' return on assets of 1.7% is lower than industry average of 3.1%. The return on assets reflects how profitable are company's assets are in generating revenues.
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## Last Earnings Report

### Travelers Q2 Earnings Meet Estimates, Revenues Miss

The Travelers Companies, Inc. reported second-quarter 2020 loss of 20 cents per share, which matched the Zacks Consensus Estimate. The company had reported earnings of \$2.02 per share in the year-ago quarter. The difference was due to higher catastrophe losses, lower net investment income and lower net favorable prior year reserve development, partially offset by higher underlying underwriting gain (i.e., excluding net prior year reserve development and catastrophe losses). COVID-19 and related economic conditions had a modest net impact on underwriting results in the quarter.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	-4.47%
EPS Surprise	0.00%
Quarterly EPS	-0.20
Annual EPS (TTM)	7.17

### Behind the Q2 Headlines

Travelers' total revenues decreased 5.4% from the year-ago quarter to \$7.4 billion, primarily due to lower premiums, net investment income, fee income and other revenues. Moreover, the top-line figure missed the Zacks Consensus Estimate by 4.6%

Net written premiums decreased 1% year over year to \$7.3 billion primarily due to the impact of the pandemic on insured exposures in the commercial businesses and the auto refund program in Personal Insurance, which was largely offset by strong renewal rate change in all three segments. Excluding premium refunds provided to personal automobile customers in response to COVID-19 and related economic conditions, net written premiums grew 2%.

Net investment income decreased 59% year over year to \$268 million pre-tax, primarily due to loss of \$234 million from non-fixed income investment portfolio and lower income from the fixed income investment portfolio. Travelers witnessed underwriting loss of \$280 million against underwriting gain of \$74 million in the year-earlier period. Combined ratio deteriorated 530 basis points (bps) year over year to 103.7%, primarily due to higher catastrophe losses and lower net favorable prior year reserve development partially offset by a lower underlying combined ratio.

At the end of the second quarter, statutory capital and surplus were \$20.6 billion. Debt-to-capital ratio (excluding after-tax net unrealized investment gains included in shareholders' equity) was 23.2%, within the company's target range of 15-25%. Adjusted book value per share was \$92.01, down 0.8% from 2019 end. Core return on equity was (0.8%) against 9.2% in the year-ago quarter.

### Segment Update

**Personal Insurance:** Net written premiums of \$2.8 billion decreased 1% year over year due poor performance at Agency Automobile. Excluding premium refunds provided to personal automobile customers, net written premiums increased 6%.

Combined ratio deteriorated 110 bps year over year to 101.3% due to higher catastrophe losses, largely offset by lower underlying combined ratio and higher net favorable prior year reserve development. Segment income of \$10 million decreased 88.6% from the year-ago quarter's level primarily due to higher catastrophe losses and lower net investment income, partially offset by higher underlying underwriting gain and higher net favorable prior year reserve development.

**Bond & Specialty Insurance:** Net written premiums rose 3% year over year to \$734 million, primarily backed by continued strong retention and increased levels of renewal premium change in management liability.

Combined ratio deteriorated 1890 bps year over year to 93.8% due to net unfavorable prior year reserve development compared to net favorable prior year reserve development in the prior year quarter, higher underlying combined ratio and higher catastrophe losses. Segment income dropped 58.6% year over year to \$72 million primarily due to net unfavorable prior year reserve development compared to net favorable prior year reserve development in the prior-year quarter, lower underlying underwriting gain and lower net investment income.

**Business Insurance:** Net written premiums decreased 3% year over year to about \$3.8 billion. The benefits of continued strong retention and higher renewal rate changes were more than offset by reduced exposures and decrease in new business volume, both due to COVID-19 and related economic conditions.

Combined ratio deteriorated 600 bps year over year to 107.1% due to higher catastrophe losses and no net prior year reserve development against net favorable prior year reserve development in the prior-year quarter, partially offset by a lower underlying combined ratio. Segment loss was \$58 million against segment income of \$351 million in the prior-year quarter. The downside was due to lower net investment income, higher catastrophe losses and no net prior year reserve development against net favorable prior year reserve development in the prior year quarter, partially offset by a higher underlying underwriting gain.

### Dividend and Share Repurchase Update

The property & casualty insurer returned \$218 million in the reported quarter. There were no share repurchases in the current quarter. The company's board approved a quarterly dividend of 85 cents per share. The dividend will be paid out on Sep 30 to shareholders of record at the close of business as of Sep 10, 2020.

## Recent News

### Travelers Reports Q2 Preliminary Results, Expects Cat Loss - Jul 14, 2020

The Travelers Companies estimates net loss per diluted share of 16 cents or core loss per diluted share of 20 cents in second-quarter 2020. Higher catastrophe losses and losses incurred in its non-fixed income investment portfolio were primarily responsible for the loss.

For the second quarter, the company estimates several weather-related and civil unrest events across the United States to result in pre-tax catastrophe losses of \$854 million, net of reinsurance (\$673 million after tax). Insurance losses in the second quarter include \$114 million pre-tax, which is related to the pandemic.

Concurrently, on a pre-tax basis, net investment income is anticipated to be \$268 million for the second quarter (\$251 million after tax). While the company's fixed income portfolio is projected to report pre-tax investment income of \$511 million (\$438 million after tax), its non-fixed income portfolio is expected to incur pre-tax loss of \$234 million (\$180 million after tax).

Further, Travelers estimation of ultimate audit premiums receivable has been subject to a reduction \$63 million pre-tax.

## Valuation

Travelers shares are down 17.1% in the year-to-date period and 22.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.2% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.4% but down 5.3%, respectively.

The S&P 500 index is up 8% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 1.08x trailing 12-month book value, which compares to 1.28x for the Zacks sub-industry, 2.38x for the Zacks sector and 4.43x 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 \$124 price target reflects 1.13x 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	1.07	1.3	2.52	4.71
	5-Year High	1.72	1.67	2.91	4.71
	5-Year Low	0.81	0.93	1.72	2.83
	5-Year Median	1.43	1.45	2.53	3.76
P/S F12M	Current	0.88	1.7	6.23	3.81
	5-Year High	1.39	11.26	6.67	3.81
	5-Year Low	0.63	1.39	4.97	2.53
	5-Year Median	1.2	1.84	6.06	3.05
P/E F12M	Current	11.42	25.76	16.65	23.37
	5-Year High	20.03	31.55	16.65	23.37
	5-Year Low	7.77	21.01	11.6	15.25
	5-Year Median	12.08	25.67	14.26	17.58

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
The Allstate Corporation (ALL)	Outperform	1
Axis Capital Holdings Limited (AXS)	Neutral	4
Chubb Limited (CB)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
The Progressive Corporation (PGR)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
CNA Financial Corporation (CNA)	Underperform	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	TRV	X Industry	S&P 500	ALL	CB	PGR
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	3	3
VGM Score	A	-	-	B	C	A
Market Cap	28.75 B	1.27 B	23.69 B	29.05 B	56.69 B	53.96 B
# of Analysts	8	2	14	8	7	9
Dividend Yield	2.99%	1.29%	1.65%	2.32%	2.48%	0.43%
Value Score	A	-	-	A	B	B
Cash/Price	0.24	0.29	0.07	0.20	0.10	0.09
EV/EBITDA	3.29	5.22	13.37	4.43	9.94	9.67
PEG Ratio	1.40	2.12	3.04	0.98	1.75	2.24
Price/Book (P/B)	1.07	0.97	3.17	1.16	1.04	3.34
Price/Cash Flow (P/CF)	3.71	10.17	12.78	6.85	10.66	12.58
P/E (F1)	13.89	13.88	21.63	7.31	17.45	13.65
Price/Sales (P/S)	0.92	0.81	2.50	0.66	1.58	1.33
Earnings Yield	7.51%	5.74%	4.44%	13.68%	5.73%	7.32%
Debt/Equity	0.26	0.24	0.75	0.27	0.25	0.33
Cash Flow (\$/share)	30.61	3.12	6.94	13.58	11.78	7.33
Growth Score	C	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	-5.11%	3.85%	10.41%	21.39%	-1.69%	39.54%
Proj. EPS Growth (F1/F0)	-11.11%	-3.84%	-4.92%	21.92%	-28.83%	0.51%
Curr. Cash Flow Growth	3.77%	3.77%	5.22%	30.84%	0.06%	48.16%
Hist. Cash Flow Growth (3-5 yrs)	-1.19%	4.81%	8.50%	9.17%	8.77%	24.96%
Current Ratio	0.40	0.43	1.34	0.30	0.31	0.44
Debt/Capital	20.74%	20.03%	44.18%	19.73%	20.32%	24.45%
Net Margin	5.81%	5.15%	10.25%	10.28%	6.10%	10.85%
Return on Equity	7.20%	6.81%	14.66%	17.25%	5.98%	29.04%
Sales/Assets	0.28	0.31	0.50	0.37	0.20	0.72
Proj. Sales Growth (F1/F0)	-0.03%	0.00%	-1.45%	0.04%	2.60%	9.98%
Momentum Score	B	-	-	A	D	B
Daily Price Chg	-1.80%	-0.88%	-0.18%	-0.81%	-0.25%	-0.65%
1 Week Price Chg	-5.71%	-2.02%	-1.45%	-1.70%	-6.32%	3.20%
4 Week Price Chg	-2.83%	1.73%	2.10%	-1.05%	-4.81%	3.65%
12 Week Price Chg	-0.81%	2.37%	3.61%	-7.37%	-0.68%	16.51%
52 Week Price Chg	-22.43%	-11.50%	3.61%	-9.18%	-20.01%	23.12%
20 Day Average Volume	1,204,286	137,935	1,883,291	1,677,941	1,619,067	2,205,393
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	3.13%	0.00%	1.20%
(F1) EPS Est 4 week change	0.00%	3.21%	0.93%	16.21%	3.86%	4.63%
(F1) EPS Est 12 week change	-9.13%	-0.52%	3.41%	17.02%	-27.77%	9.30%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	36.42%	3.13%	27.56%



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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	A
Growth Score	C
Momentum Score	B
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.

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