



The Travelers Companies (TRV)

Updated July 21st, 2024, by Josh Arnold

Key Metrics

Current Price:	\$203	5 Year CAGR Estimate:	12.2%	Market Cap:	\$46 B
Fair Value Price:	\$209	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	09/10/24
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	09/30/24
Dividend Yield:	2.1%	5 Year Price Target	\$336	Years Of Dividend Growth:	20
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

The Travelers Companies was founded in 1864 in Hartford, CT by two local businessmen. The company began with life and accident insurance but has expanded into other types of coverage in the 150+ years since then. Today, it generates about \$42 billion in annual revenue and has a \$46 billion market capitalization. The company offers a wide and deep variety of protection products for auto, home, and business customers. It is also a member of the Dow Jones Industrial Average, making it the only property casualty insurance provider in the prestigious index.

Travelers posted second quarter earnings on July 19th, 2024, and results were excellent. Adjusted earnings-per-share came to \$2.51, which was 51 cents ahead of estimates. Revenue was up almost 12% year-over-year to \$11.28 billion. That was a staggering \$860 million ahead of estimates.

The company's consolidated combined ratio improved 6.3 points from the year-ago period to 100.2%. Catastrophe losses were \$1.51 billion, up slightly from the year-ago period. Underlying combined ratio improved 3.4 points from the year-ago period to 87.7%, helping greatly to boost profitability.

Net favorable prior year reserve development of \$230 million pre-tax, as all three of the company's operating segments saw favorable developments. Record net written premiums of \$1.12 billion, up 8% as all three segments saw higher values. Net investment income was up 24% pre-tax year-over-year, primarily from strong fixed income returns and growth in fixed maturity investments.

Total capital returned was \$498 million, which was split evenly between share repurchases and dividends.

Book value per share was \$109, up 14% year-over-year. On an adjusted basis, it came to \$126.52, up 10%. We now see \$17.40 in adjusted earnings-per-share for this year, down about a dollar from our prior estimate.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$10.56	\$10.87	\$10.13	\$7.27	\$8.94	\$9.60	\$10.48	\$13.94	\$12.47	\$13.13	\$17.40	\$28.02
DPS	\$2.15	\$2.38	\$2.68	\$2.83	\$3.03	\$3.23	\$3.37	\$3.49	\$3.67	\$3.93	\$4.20	\$5.62
Shares¹	322	296	280	271	264	259	255	241	241	228	215	175

After strong growth coming out of the Great Recession, Travelers failed to regain its 2015 high of \$10.87 in earnings-per-share until 2021. Conditions were quite favorable in 2021 in that prior reserve developments were unwound, investment conditions were excellent, and losses were lower than normal. We're expecting 10% growth from here, as Travelers' core business is performing extremely well, and higher interest rates mean investment income is strong.

Travelers could achieve this growth primarily from higher underwritten premiums and the buyback program, although margins should play a part as well, as long as there aren't any large catastrophes. We forecast low single-digit gains from higher revenue as well as a similar tailwind from the company's buyback, which has reduced the float by about a third in just the past decade alone. Recent reductions have been smaller in size given the higher share price, but Travelers is

¹ Share count in millions

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committed to reducing its share count over time. Lower operating expenses should also provide a bit of a boost to earnings, but the Travelers story is about higher premiums, uncertain catastrophe losses, and a lower share count.

The dividend has been raised in the mid-single-digit range annually and we expect that will continue for the foreseeable future. Travelers is not a pure income stock, and its 2.1% yield is now quite low by historical standards, and only slightly above that of the S&P 500.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	8.8	9.7	11.2	17.2	14.7	14.5	11.3	11.0	15.0	14.5	11.7	12.0
Avg. Yld.	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%	2.9%	2.3%	2.0%	2.1%	2.1%	1.7%

Travelers' price-to-earnings multiple stands at 11.7 times this year's earnings estimate. We therefore see the stock as fairly valued given that our estimate of fair value is 12 times earnings. That implies a small positive impact on annual returns due to the valuation. We forecast the yield to decline to 1.7% over time as the dividend is raised and as the valuation stays about the same, with earnings growth outpacing dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	22%	25%	38%	34%	34%	32%	25%	29%	30%	24%	20%

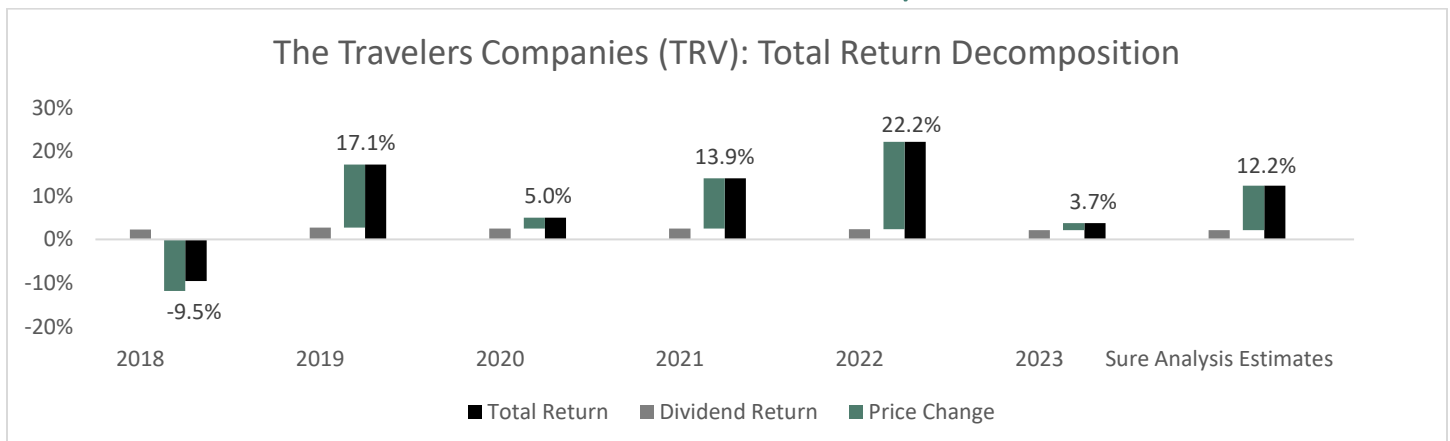
Travelers continues to be conservatively financed, so its balance sheet is in good shape and interest coverage remains robust. We believe the payout ratio should remain very low given that we are forecasting earnings to grow more quickly than the dividend. The dividend is, therefore, very safe and we see many more years of increases on the horizon. Importantly, this continues to allow Travelers to buy back hundreds of millions of dollars of its own shares annually.

Travelers' main competitive advantage is in its immense scale and recognizable brand. Its size allows it to underwrite policies that others would not be able to, and its brand is well-known from its long history. Travelers is more susceptible to catastrophes than recessions, as we saw in 2017 and again in 2018. This makes Travelers a defensive play should the economy weaken materially, but we reiterate that insurance companies are susceptible to significant and unforeseen shocks, as Travelers has demonstrated in recent years.

Final Thoughts & Recommendation

Travelers looks like a relatively safe financial services provider with a strong growth outlook. We forecast total annual return potential of 12.2% in the coming years, consisting of the 2.1% yield, 10% earnings-per-share growth and a 0.6% tailwind from the valuation. We're reiterating Travelers at a buy rating after Q2 earnings.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,174	26,815	27,625	28,902	30,282	31,581	31,981	34,816	36,884	41,373
SG&A Exp.	3,964	4,094	4,154	4,170	4,297	4,365	4,509	4,677	4,810	5,176
D&A Exp.	864	818	826	813	803	763	789	870	826	722
Net Profit	3,692	3,439	3,014	2,056	2,523	2,622	2,697	3,662	2,842	2,991
Net Margin	13.6%	12.8%	10.9%	7.1%	8.3%	8.3%	8.4%	10.5%	7.7%	7.2%
Free Cash Flow	3,693	3,434	4,469	4,148	4,380	5,205	6,519	7,274	6,465	7,711
Income Tax	1,397	1,301	1,039	674	438	516	540	796	512	380

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	103.1	100.2	100.2	103.5	104.2	110.1	116.8	120.5	115.7	126.0
Cash & Equivalents	374	380	307	344	373	494	721	761	799	650
Acc. Receivable	19,920	19,721	19,618	20,228	20,661	20,763	20,421	20,427	20,564	21,674
Goodwill & Int.	3,915	3,852	3,848	4,293	4,282	4,291	4,293	4,314	4,239	4,253
Total Liabilities	78,242	76,586	77,024	79,752	81,339	84,179	87,563	91,579	94,157	101,057
Accounts Payable	4,698	4,670	4,882	5,049	5,074	4,982	4,617	4,295	4,015	3,787
Long-Term Debt	6,349	6,344	6,437	6,571	6,564	6,558	6,550	7,290	7,292	8,031
Total Equity	24,836	23,598	23,221	23,731	22,894	25,943	29,201	28,887	21,560	24,921
LTD/E Ratio	0.26	0.27	0.28	0.28	0.29	0.25	0.22	0.25	0.34	0.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.6%	3.4%	3.0%	2.0%	2.4%	2.4%	2.4%	3.1%	2.4%	2.5%
Return on Equity	14.9%	14.2%	12.9%	8.8%	10.8%	10.7%	9.8%	12.6%	11.3%	12.9%
ROIC	11.8%	11.3%	10.1%	6.9%	8.4%	8.5%	7.9%	10.2%	8.7%	9.7%
Shares Out.	322	296	280	271	264	259	255	251	240	232
Revenue/Share	79.34	85.43	94.93	103.74	112.24	120.40	125.61	138.32	153.93	178.18
FCF/Share	10.78	10.94	15.36	14.89	16.23	19.84	25.60	29.00	26.97	33.21

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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