



Cincinnati Financial Corp. (CINF)

Updated November 20th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$150	5 Year CAGR Estimate:	4.8%	Market Cap:	\$23.5 B
Fair Value Price:	\$128	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/19/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date:	01/15/25
Dividend Yield:	2.2%	5 Year Price Target	\$171	Years Of Dividend Growth:	64
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Cincinnati Financial Corp. (CINF) is an insurance company founded in 1950. It offers business, home, auto insurance, and financial products, including life insurance, annuities, property, and casualty insurance. Cincinnati Financial is headquartered in Fairfield, Ohio, trading with a \$23.5 billion market capitalization. As an insurance company, Cincinnati Financial makes money in two ways. It earns income from premiums on policies written and by investing its float, or the large sum of money consisting of the time value between the premium income and insurance claims.

On October 24th, 2024, Cincinnati Financial reported the third quarter results for Fiscal Year (FY)2024. The company reported robust third-quarter 2024 financial results, highlighted by a net income of \$820 million, or \$5.20 per share, compared to a net loss of \$99 million in the same period last year. This improvement was driven by a \$645 million increase in the fair value of equity securities and a \$956 million rise in net investment gains. However, non-GAAP operating income declined by 14% to \$224 million, attributed to an \$86 million increase in after-tax catastrophe losses. The company's book value per share rose 15% year-to-date to \$88.32, and the value creation ratio reached 17.8%, significantly above the 4.4% recorded for the same period in 2023. Insurance operations saw a 17% increase in net written premiums, reaching \$2.3 billion in the quarter, fueled by pricing initiatives and higher insured exposures. Property casualty combined ratio rose to 97.4% from 94.4% last year, reflecting elevated catastrophe losses, including Hurricane Helene. Despite this, nine-month underwriting profit improved by 53% to \$228 million, with a combined ratio of 96.5% year-to-date. The life insurance subsidiary posted a net income of \$20 million, down \$5 million year-over-year, while term life insurance earned premiums grew by 4%. Investment income climbed 15% to \$258 million, supported by a 21% rise in bond interest income. Total investments increased by 5% in value over three months, reaching nearly \$30 billion. CEO Stephen M. Spray emphasized the company's resilience in navigating weather-related challenges and market volatility, citing ongoing efforts to diversify products, refine pricing, and optimize investment strategies. With property casualty net written premiums exceeding \$7 billion year-to-date and strong financial metrics, Cincinnati Financial continues to demonstrate stability and growth for policyholders and shareholders.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.66	\$3.56	\$3.07	\$2.74	\$3.35	\$4.20	\$3.28	\$6.41	\$4.24	\$6.03	\$6.40	\$8.56
DPS	\$1.76	\$1.84	\$1.92	\$2.00	\$2.12	\$2.24	\$2.40	\$2.52	\$2.76	\$3.00	\$3.24	\$4.14
BPS	\$40.15	\$39.21	\$42.94	\$50.29	\$48.11	\$60.50	\$67.04	\$81.72	\$67.01	\$77.06	\$81.79	\$131.72
Shares¹	165.0	165.0	167.0	166.0	165.0	165.0	162.0	162.7	158.8	158.1	158.0	157.0

Cincinnati Financial has grown earnings by 9.5% per year over the past nine years and 9.4% over the past five years. Consensus analysts expect earnings to grow by 6% for the next five years. Book value, a significant metric for insurance companies, has increased by 6.1% over the past nine years and 7.7% over the past five years. Unlike many insurers, the company is not a significant buyer of its shares for per-share growth.

¹ Share count is in millions.

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The company makes most of its net income from its investment gains and is highly dependent on bond interest rates and stock market performance. We have a baseline forecast of 6% earnings and 10% book value growth over the next five years, but the estimate depends on overall stock and bond performance in the United States over that period. Management expects to grow the book value by 10% - 15% per year.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.3	15.2	22.7	26.8	22.3	25.0	26.6	17.8	24.1	17.2	23.5	20.0
Avg. P/B	1.21	1.38	1.62	1.46	1.55	3.8	1.3	1.4	0.7	1.3	1.8	1.6
Avg. Yld.	3.6%	4.2%	2.8%	3.4%	2.8%	2.1%	2.6%	2.2%	2.7%	2.9%	2.2%	2.4%

Cincinnati Financial has averaged a 21.6 P/E ratio over the past decade. The P/B ratio has averaged 1.6. The company is slightly higher than its historical norm with a current PE of 23.5x and 1.8 P/B valuations. We expect a mean reversion to 20 P/E as the base case, implying a headwind of 3.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	66%	52%	63%	73%	63%	53%	73%	39%	65%	50%	51%	48%

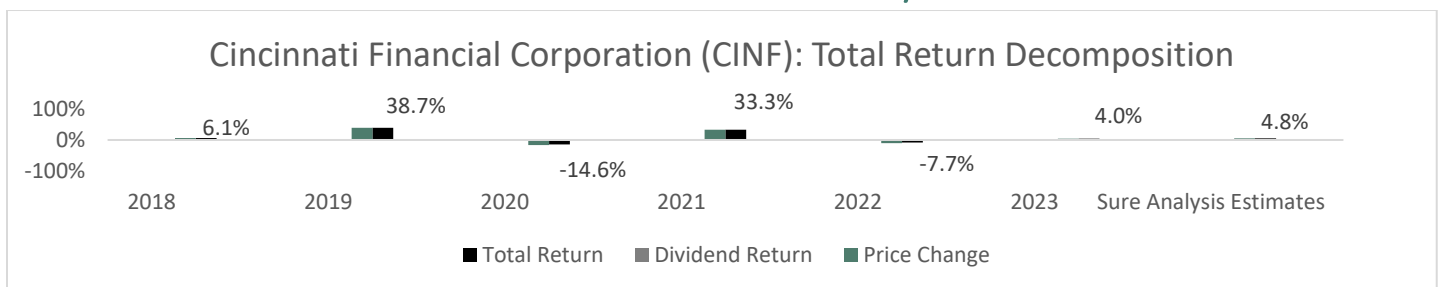
Cincinnati Financial has a strong dividend growth track record. Unlike many financial industry peers, it did not cut its dividend payout during the last financial crisis. In 2009, the dividend was not fully covered by earnings, but The Company continued to grow its payout, and dividends have been fully covered since 2012. With its dividend record during the financial crisis, BBB+ investment-grade credit rating, and Cincinnati Financial having 62 consecutive years of annual dividend increases, we believe that the risk of a dividend cut is low with this company.

Cincinnati Financial lacks durable competitive advantages. Its recognized brand and relatively large-scale help, and to that end, Cincinnati Financial have developed a close relationship with its customers. But competition is fierce, and insurance companies do not enjoy high brand loyalty. Competing insurers can lure customers away with relative ease by offering price discounts. Cincinnati Financial is not insulated against recessions but is not as vulnerable as many companies in the financial sector. The company's balance sheet is strong, with interest coverage of 50.6 times and a Debt-to-Equity ratio of 0.1.

Final Thoughts & Recommendation

Cincinnati Financial is a high-quality dividend stock that has previously delivered compelling results for shareholders. The company is not a high-growth name, though, and we believe that earnings will rise at a meager mid-single-digit pace. Cincinnati Financial is trading at a high valuation compared to what seems justified based on its growth outlook and historical valuation. The company earns a hold recommendation due to its valuation levels compared to historical valuation levels, with an estimated total return of 4.8% annually for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,945	5,142	5,449	5,732	5,407	7,924	7,536	9,630	6,557	10,010
D&A Exp.	51	52	48	55	63	72	81	93		
Net Profit	525	634	591	1,045	287	1,997	1,216	2,946	-486	1,843
Net Margin	10.6%	12.3%	10.8%	18.2%	5.3%	25.2%	16.1%	30.6%	-7.4%	18.4%
Free Cash Flow	864	1,065	1,102	1,036	1,161	1,184	1,471	1,966		
Income Tax	196	247	221	-315	-36	475	283	724	-207	433

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	18,748	18,888	20,386	21,843	21,935	25,408	27,542	31,387	29,736	32,770
Cash & Equivalents	591	544	777	657	784	767	900	1,139	1,264	907
Acc. Receivable	1,950	1,973	2,078	2,021	2,128	2,387	2,396	2,623	2,962	3,243
Total Liabilities	12,175	12,461	13,326	13,600	14,102	15,544	16,753	18,282	19,205	20,670
Long-Term Debt	835	821	807	811	820	827	842	843	891	874
Total Equity	6,573	6,427	7,060	8,243	7,833	9,864	10,789	13,105	10,531	12,100
LTD/E Ratio	0.13	0.13	0.11	0.10	0.10	0.08	0.08	0.06	0.08	0.07

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.9%	3.4%	3.0%	4.9%	1.3%	8.4%	4.6%	10.0%	-1.6%	5.9%
Return on Equity	8.3%	9.8%	8.8%	13.7%	3.6%	22.6%	11.8%	24.7%	-4.1%	16.3%
ROIC	7.3%	8.7%	7.8%	12.4%	3.2%	20.6%	10.9%	23.0%	-3.8%	15.1%
Shares Out.	165.0	165.0	167.0	166.0	165.0	165.0	162.0	162.7	158.8	158.1
Revenue/Share	29.95	31.05	32.73	34.53	32.87	48.00	46.40	59.19	41.28	63.33
FCF/Share	5.23	6.43	6.62	6.24	7.06	7.17	9.06	12.08		

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

Disclaimer

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