



The Hartford Financial Services Group (HIG)

Updated October 31st, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$113	5 Year CAGR Estimate:	9.5%	Market Cap:	\$33.8 B
Fair Value Price:	\$112	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/02/24
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date¹:	01/03/25
Dividend Yield:	1.8%	5 Year Price Target	\$165	Years Of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

The Hartford Financial Services Group Inc. (HIG) is a diversified insurer that offers a diverse range of property and casualty (P&C) insurance, group benefits, and mutual fund services to a customer base of individuals and corporations in the United States, the United Kingdom, continental Europe, and internationally. The \$33.8 billion market cap company was founded in 1810 and has approximately 18,100 employees.

On October 24th, 2024, Hartford Financial released its third quarter 2024 results for the period ending September 30th, 2024. For the quarter, the company reported net income of \$761 million (\$2.56 per diluted share), which represents an 18% increase compared with net income of \$645 million (\$2.09 per diluted share) in the same quarter of 2023. Reported core earnings for the same periods were \$752 million (\$2.53 core earnings per diluted share) and \$708 million (\$2.29 core earnings per diluted share), which represents an increase of 6% year-over-year.

The quarterly results benefited from strong performances in the Commercial Lines, Personal Lines, and Group Benefits businesses. The Property & Casualty (P&C) segment demonstrated robust growth with written premiums increasing by 10%, driven by both Commercial and Personal Lines, which grew by 9% and 12%, respectively. Written Personal Lines premiums reached \$970 million, marking a 12% increase compared to the third quarter of 2023. The renewal written price for auto insurance rose to 20.8% in the third quarter of 2024, down from 23.4% in the second quarter of 2024, while home insurance saw a renewal price increase to 15.2%, up from 14.9% over the same period. The Commercial Lines segment achieved a third-quarter combined ratio of 92.2 and an underlying combined ratio of 88.6, indicating strong profitability. The written premiums for this segment totaled \$3.3 billion in the third quarter of 2024, a 9% increase from the third quarter of 2023. This growth was driven by increases across all segments, strong double-digit growth in new business, and the effect of renewal written price increases. Meanwhile, the Group Benefits segment posted a core earnings margin of 8.7% and reported a 2% growth in fully insured ongoing premiums. The loss ratio of 70.2% was flat compared to the third quarter of 2023, driven by lower mortality trends in group life, offset by higher disability loss ratios and increased costs in supplemental health products. For the Hartford Funds segment, net income ended at \$54 million, compared to \$41 million in the third quarter of 2023, primarily resulting from higher fee income, offset by mutual fund and ETF net outflows. Hartford's strong financial performance in the third quarter reflects the effectiveness of its strategy and ongoing investments to differentiate itself in the marketplace.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.93	\$3.88	\$3.38	\$2.74	\$4.33	\$5.65	\$5.78	\$6.15	\$7.58	\$8.88	\$10.20	\$14.99
DPS	\$0.66	\$0.78	\$0.86	\$0.94	\$1.10	\$1.20	\$1.30	\$1.44	\$1.58	\$1.88	\$2.08	\$2.78
Shares²	424	401	373	356	359	359	358	340	315	315	300	275

Hartford Financial has grown earnings by 13.1% per year since 2014 and 12.5% over the past five years. We expect Hartford Financial to grow its earnings-per-share by 8% per year on average over the next five years, mainly driven by commercial lines premium growth, assisted by optimizing costs and rising yields and interest rates.

¹ Estimated date

² In millions.

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Hartford Financial has a long history of paying dividends and has 15 consecutive years of annual dividend increases. After the dividend was cut due to the financial crisis, it has increased from \$0.40 in 2012 to the most recent annual payment of \$2.08 in 2024. In October 2024, Hartford Financial has increased its quarterly dividend by 10.6% from \$0.47 to \$0.52 per share. The company also announced a new \$3.3 billion share repurchase program, effective from August 1st, 2024, through the end of 2026.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.5	11.2	12.9	19.0	11.7	9.7	7.5	10.4	9.3	9.2	11.1	11.0
Avg. Yld.	1.9%	1.8%	2.0%	1.8%	2.2%	2.2%	3.0%	2.3%	2.3%	2.1%	1.8%	1.7%

Hartford Financials' valuation has declined from the peak level that it reached during 2017. In 2020, its share price declined to just above \$30, which was one-third of its then share price. During the past decade shares of Hartford Financial have traded with an average price-to-earnings ratio of about 11 times earnings and today, it stands at 11.1. The current valuation is below the US Insurance industry average of 14.2x EPS. We are using 11.0 times earnings as a fair value baseline, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

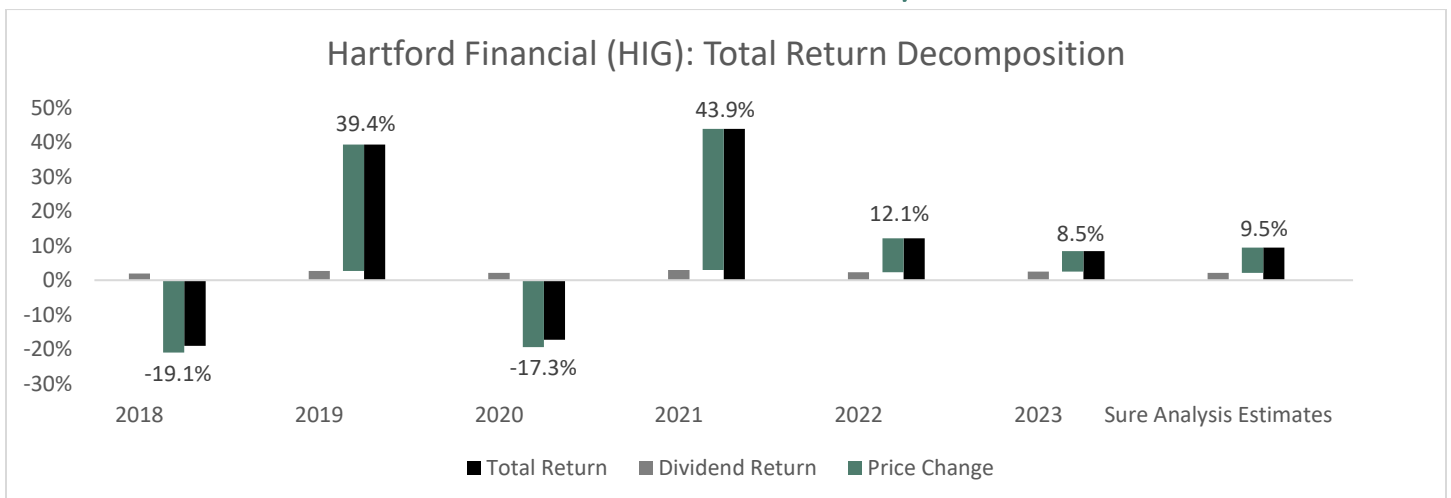
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	20%	25%	34%	25%	21%	22%	23%	21%	21%	20%	19%

During the past decade the company's dividend payout ratio has averaged around 23%. With the current payout ratio of 20%, HIG's dividend payments are well covered by earnings. Given the expected earnings growth, there is still room for the dividend to continue to grow moving forward while maintaining a payout ratio below 30%. The Hartford Financial Services Group is a diversified insurer with market leadership active in desirable segments (CL & PL) with high return characteristics. With their differentiating capabilities the company can strengthen its competitive advantages and is able to grow further.

Final Thoughts & Recommendation

The Hartford Financial Services Group could continue to rise at a steady pace in the long run. The company benefits from four different earnings contributors (commercial lines, personal lines, Hartford funds, and group benefits) and can improve the bottom line with further cost reductions. The expected total annual returns for Hartford Financial are 9.5% per year, driven by 8% projected earnings growth, a 1.8% dividend yield, and the potential for a small valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	18,614	15,997	16,291	17,162	18,750	20,508	20,320	21,649	21,850	24,330
D&A Exp.	276	373	398	399	467	451	562	680	625	510
Net Profit	798	1,682	896	-3,131	1,807	2,085	1,737	2,365	1,815	2,500
Net Margin	4.3%	10.5%	5.5%	-18.2%	9.6%	10.2%	8.5%	10.9%	8.3%	10.3%
Free Cash Flow	1,765	2,449	1,842	1,936	2,721	3,384	3,757	3,960	3,833	4,005
Income Tax	350	289	(166)	985	268	475	383	531	443	584

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	245,013	228,348	224,576	225,260	62,307	70,817	74,111	76,578	73,020	76,780
Cash & Equivalents	399	448	328	180	112	185	151	205	229	126
Acc. Receivable	26,349	26,726	7,389	7,971	8,352	9,911	10,279	10,968	11,920	12,710
Goodwill & Int.	498	498	611	1,949	1,947	2,983	2,861	2,769	2,689	2,618
Total Liabilities	226,293	210,706	207,673	211,766	49,206	54,547	55,555	58,735	59,390	61,450
Long-Term Debt	6,109	5,359	4,910	4,998	4,678	4,848	4,352	4,944	4,357	4,362
Total Equity	18,720	17,642	16,903	13,494	12,767	15,936	18,222	17,509	13,300	14,990
LTD/E Ratio	0.33	0.30	0.29	0.37	0.36	0.30	0.23	0.28	0.32	0.28

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.7%	0.4%	-1.4%	1.3%	3.1%	2.4%	3.1%	2.4%	3.3%
Return on Equity	4.2%	9.3%	5.2%	-20.6%	13.8%	14.5%	10.2%	13.2%	11.8%	17.3%
ROIC	3.2%	7.0%	4.0%	-15.5%	10.0%	10.7%	7.9%	10.4%	8.9%	13.3%
Shares Out.	424	401	373	356	359	359	358	340	329.5	311.5
Revenue/Share	40.45	37.62	41.26	47.19	51.50	56.20	56.35	61.14	66.32	78.11
FCF/Share	3.84	5.76	4.67	5.32	7.47	9.27	10.42	11.18	11.63	12.86

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

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