

Allstate Corp.

Strong underwriting results and mild weather events drive 4Q23 EPS beat

Reiterate Rating: BUY | PO: 189.00 USD | Price: 158.60 USD

4Q23 operating EPS of \$5.82

Allstate's 4Q23 result well-exceeded our forecast of \$3.76 and Street consensus of \$3.93. The accident-year ex-catastrophe combined ratio for the Protection business was 86.9%, besting our forecast of 92.1% and representing \$2.02/sh EPS variance. The robust underlying combined ratio represented material beats in both auto and homeowners' loss ratios as both segments benefited higher earned premium and mild weather activity. However, the expense ratio came in 50bps higher than our forecast, partially offsetting the lower loss ratios albeit reflecting 30bps of improvement YoY.

Auto margins continue to improve while PIF declined

Allstate's auto underlying loss ratio of 76.5% continues to improve, representing 200bps of sequential improvement. The company has previously indicated the need for additional rate filings in 2024, which should continue to drive further progress on achieving the company's target profitability. We are tweaking our forecast for more slightly expedient improvement to underwriting margins, lifting our out-year forecasts. Unsurprisingly, policy count of Allstate brand auto policies continued to decline, with the company losing roughly 130k policies during the quarter. We expect this further rate actions to continue to cause policy count to decline into 2026 at a decelerating rate as management begins to shift focus from profitability to growth.

Outstanding homeowners' results unlikely to persist

Allstate reported strong underwriting results in its homeowners' segment with the core underlying loss ratio of 39%. This is the best result since 4Q20, albeit the result isn't surprising following Travelers excellent homeowners' results with both companies benefiting from very mild weather activity during the quarter. Similar to auto, the company continues to see additional rate increases which we capture in our model.

Price objective rises to \$189, reiterate Buy rating

Upon interpolating the quarter's results and modeling modestly quicker improvement in auto margins, our out-year EPS forecasts rise. This is partially offset by modest peer group multiple compression. Our new \$189 price objective (previously \$172) is based upon parity with the large-cap underwriter peer group on 2025 EPS, currently 10.6x, up from 10.1x previously. We believe there is reasonably good upside in Allstate shares as profitability should continue to improve, we recommend the stock with a Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.97)	(1.15)	14.45	17.85	19.10
GAAP EPS	(5.22)	(3.31)	14.45	17.85	19.10
EPS Change (YoY)	-107.2%	18.6%	-1,356.5%	23.5%	7.0%
Consensus EPS (Bloomberg)			11.79	15.57	15.54
DPS	3.40	3.56	3.66	3.72	3.80
Valuation (Dec)					
P/E	NM	NM	11.0x	8.9x	8.3x
Dividend Yield	2.1%	2.2%	2.3%	2.3%	2.4%

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	172.00	189.00
2024E EPS	13.45	14.45
2025E EPS	17.05	17.85
2026E EPS	18.80	19.10

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Stock Data

Price	158.60 USD
Price Objective	189.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	100.57 USD - 159.60 USD
Mkt Val / Shares Out (mn)	41,504 USD / 261.7
Free Float	98.1%
Average Daily Value	223.14 USD
BofA Ticker / Exchange	ALL / NYS
Bloomberg / Reuters	ALL US / ALLN
ROE (2024E)	0%
ESGMeter™	High

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iQprofileSM Allstate Corp.

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	47,737	51,966	56,701	59,024	60,698
Net Investment Income	2,403	2,478	3,194	3,426	3,677
Total Revenue	51,411	56,541	62,215	64,770	66,695
Total Cost of Benefits and Claims	(37,264)	(41,070)	(40,249)	(41,000)	(42,091)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(52,918)	(57,113)	(57,184)	(58,547)	(59,986)
Pre-Tax Operating Earnings	(1,507)	(572)	5,030	6,223	6,709
Income Tax Expense	494	135	(1,024)	(1,259)	(1,360)
Operating Earnings After Tax	(262)	(302)	3,889	4,847	5,232
Net Income (Reported)	(958)	(412)	4,006	4,964	5,349
Diluted Shares	272	264	269	272	274
Operating Earnings Per Share	(0.97)	(1.15)	14.45	17.85	19.10
Net Income (Reported) Per Share	(5.22)	(3.31)	14.45	17.85	19.10

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	62,565	67,399	70,984	75,723	79,116
Total Assets	97,957	103,362	109,178	115,630	122,326
Reserves	38,814	41,205	42,823	44,508	46,260
LT Debt	7,964	7,942	7,942	7,942	7,942
Total Liabilities	80,607	85,732	88,541	91,054	93,457
Total Equity	17,350	17,630	20,637	24,576	28,869
Total Equity (Ex FAS 115)	17,350	17,630	20,637	24,576	28,869
Book Value per Share (Reported)	58.37	58.87	69.56	83.52	98.53
Book Value per Share (Ex FAS 115)	45.08	45.68	56.49	70.56	85.68

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	78.1%	79.0%	71.0%	69.5%	69.3%
Combined Ratio	78.1%	79.0%	71.0%	69.5%	69.3%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	4.6x	5.8x	5.6x	5.0x	4.5x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	8.4%	8.9%	9.1%	4.1%	2.8%
Net Investment Income	-27.0%	3.1%	28.9%	7.3%	7.3%
Total Revenue	1.6%	10.0%	10.0%	4.1%	3.0%
Operating Earnings per Share	-107.2%	18.6%	-1,356.5%	23.5%	7.0%
Asset	-1.5%	5.5%	5.6%	5.9%	5.8%
Reported Book Value per Share	-28.2%	0.9%	18.2%	20.1%	18.0%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NM	NM	3.7%	4.3%	4.4%
Operating Margin	-0.5%	-0.5%	6.3%	7.5%	7.8%
Long Term Debt to Cap Ratio (Ex FAS 115)	31.5%	31.1%	27.8%	24.4%	21.6%
Net Income % Operating Income	426.7%	187.1%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	112.0%	104.1%	75.5%	72.2%	71.1%

Company Sector

Insurance - Non-Life

Company Description

Allstate is the largest publicly traded personal lines insurance company, with about 10% of the personal lines market (1 in 8 households). Allstate is primarily a captive agency writer. Besides a full array of personal lines P/C products (preferred, standard and nonstandard auto insurance, and homeowners' insurance), the company also offers life insurance and annuity products.

Investment Rationale

We believe Allstate is well positioned to earn above-average returns in personal lines in the long term, given its scale, pricing sophistication, and product design. ALL's personal auto business continues to produce attractive returns and the fundamentals in homeowners insurance, a source of earnings pressure over the past several years, are improving as prices rise and terms and conditions tighten up. Improving top-line growth could be the next potential catalyst for the shares.

Stock Data

Average Daily Volume 1,428,416

Quarterly Earnings Estimates

	2023	2024
Q1	-1.30A	4.66E
Q2	-4.42A	2.71E
Q3	0.81A	2.97E
Q4	5.82A	4.45E

Price objective basis & risk

Allstate Corp. (ALL)

Our \$189 PO is based on parity with the peer group 2025E P/E multiple of 10.6x. The life insurance divestiture from two years prior and upcoming announced health divestiture should drive a higher relative valuation compared to the past, and, given our view that personal lines is a better business, there could be upside potential should the market shift to valuing personal lines at a premium. We believe this valuation is supported by our forecast for a 20%+ ROE (on tangible and stated).

Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The race to reprice business following the new wave of auto accident frequency and severity could take longer than we forecast. The volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook. Another risk: revenue and earnings uncertainty looms in the distance with the eventual adoption of autonomous vehicles.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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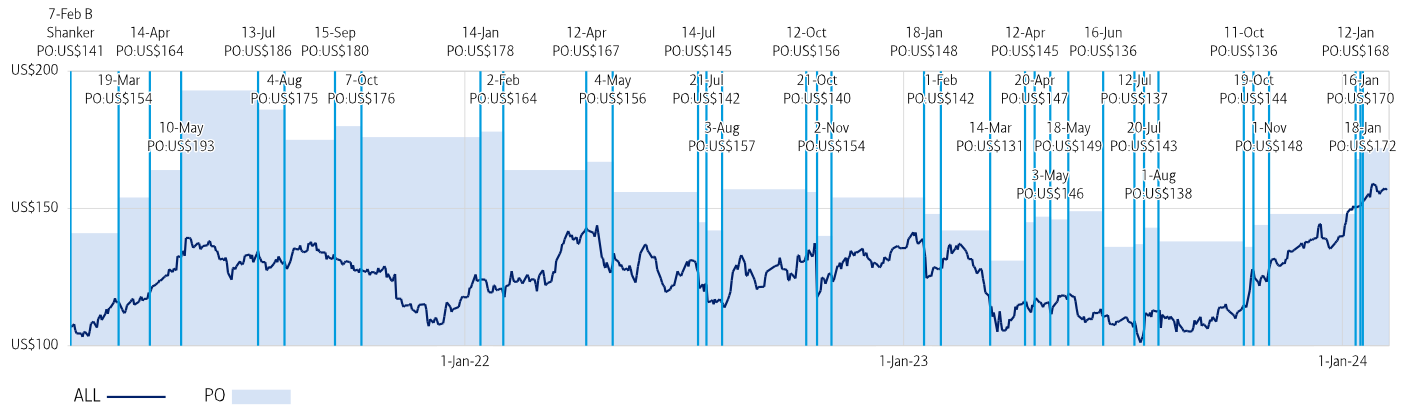
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Allstate Corp. (ALL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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