

CNA Financial

Earnings beat driven by better LP results; Commercial pricing continues to rise

Reiterate Rating: NEUTRAL | PO: 39.00 USD | Price: 39.31 USD

2Q23 core EPS of \$1.13

CNA's 2Q23 earnings result was in-line with Street consensus but surpassed our forecast of \$1.00. Less severe catastrophe loss experience (+\$0.14/sh) and higher investment income from limited partnerships (LPs; +\$0.11/sh) were responsible for the variance with our forecast. This was partially offset by lower life earnings. Net written premium growth of 9.5% remains solid despite decelerating from 1Q23 (11.1%) and from a year earlier (13% excluding one-time quota-share treaty) as the company leans into the re-accelerating pricing within Commercial. CNA's core combined ratio deteriorated modestly, largely driven by a higher expense ratio due to employee compensation market adjustments taking place during the quarter.

Commercial pricing accelerated; Specialty largely flat YoY

P&C premium growth of 9.5% exceeded our forecast by 100bps with stronger premium growth in Commercial and International offsetting slightly negative premium growth in Specialty. Commercial segment delivered 17.2% premium growth, benefiting from strong rate renewals as well as continued new business growth. The company is successfully extracting higher rate and renewal pricing change from clients as rate improved 100bps sequentially to 8% while receiving renewal pricing change of 11%. Furthermore, retention modestly dipped to 85% from 86% despite CNA charging a higher price. We are modestly increasing our outlook for premium growth going forward. Specialty, on the other hand, experienced a 1% as rate decline while renewal premium change remained flat, following strong rate increases over recent years, resulting in increased competition and driving an inflection in prices. Commercial and International both saw underlying margins improve modestly while Specialty experienced about 200bps of deterioration, largely captured in a higher expense ratio due to higher employee and acquisition costs.

Price objective rises to \$39

Our EPS forecast rises modestly for FY23E and FY24E but declines 3.1% for FY25E upon interpolating 2Q23's results into our model. Higher investment yields and modestly lower expense ratio in Commercial and International are offset by declining life insurance premiums. Our price objective rises to \$39 (from \$38), which is predicated on 80% of its large-cap P&C peers' P/E multiple (10.5x). Our Neutral rating is predicated on lack of material upside potential relative to our price objective (PO).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.05	3.84	4.25	4.60	4.80
GAAP EPS	4.41	3.28	4.05	4.60	4.80
EPS Change (YoY)	50.0%	-5.2%	10.7%	8.2%	4.3%
Consensus EPS (Bloomberg)			4.33	4.58	4.01
DPS	2.27	3.60	2.88	3.76	3.84
Valuation (Dec)					
P/E	9.7x	10.2x	9.2x	8.5x	8.2x
GAAP P/E	8.9x	12.0x	9.7x	8.5x	8.2x
Dividend Yield	5.8%	9.2%	7.3%	9.6%	9.8%

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Timestamp: 31 July 2023 11:13AM EDT

31 July 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	38.00	39.00
2023E EPS	4.15	4.25
2025E EPS	4.95	4.80

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Stock Data

Price	39.31 USD
Price Objective	39.00 USD
Date Established	31-Jul-2023
Investment Opinion	B-2-7
52-Week Range	34.93 USD - 44.67 USD
Mrkt Val (mn) / Shares Out (mn)	10,647 USD / 270.9
Average Daily Value (mn)	7.09 USD
BofA Ticker / Exchange	CNA / NYS
Bloomberg / Reuters	CNA US / CNA.N
ROE (2023E)	13.0%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).



iQprofileSM CNA Financial

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	8,175	8,667	9,503	10,161	10,452
Net Investment Income	2,159	1,805	2,183	2,255	2,364
Total Revenue	11,908	11,879	13,260	14,084	14,524
Total Cost of Benefits and Claims	(6,349)	(6,386)	(7,184)	(7,574)	(7,786)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(10,424)	(10,798)	(11,865)	(12,514)	(12,881)
Pre-Tax Operating Earnings	1,484	1,081	1,394	1,570	1,643
Income Tax Expense	(282)	(187)	(292)	(320)	(335)
Operating Earnings After Tax	1,106	1,048	1,156	1,251	1,307
Net Income (Reported)	1,202	894	1,103	1,251	1,307
Diluted Shares	273	273	272	272	272
Operating Earnings Per Share	4.05	3.84	4.25	4.60	4.80
Net Income (Reported) Per Share	4.41	3.28	4.05	4.60	4.80

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	50,864	43,652	46,231	48,430	50,710
Total Assets	66,639	60,927	64,526	66,725	69,005
Reserves	24,174	25,099	22,726	22,735	22,632
LT Debt	2,779	2,781	2,938	2,939	2,939
Total Liabilities	53,830	52,102	55,505	57,473	59,489
Total Equity	12,809	8,825	9,021	9,252	9,516
Total Equity (Ex FAS 115)	12,809	8,825	9,021	9,252	9,516
Book Value per Share (Reported)	47.20	32.58	33.28	34.08	35.00
Book Value per Share (Ex FAS 115)	46.02	45.71	45.91	46.69	47.59

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	77.7%	73.7%	75.6%	74.5%	74.5%
Combined Ratio	77.7%	73.7%	75.6%	74.5%	74.5%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	5.1x	5.9x	7.0x	7.2x	7.2x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	6.9%	6.0%	9.7%	6.9%	2.9%
Net Investment Income	11.6%	-16.4%	21.0%	3.3%	4.8%
Total Revenue	10.2%	-0.2%	11.6%	6.2%	3.1%
Operating Earnings per Share	50.0%	-5.2%	10.7%	8.2%	4.3%
Asset	4.1%	-8.6%	5.9%	3.4%	3.4%
Reported Book Value per Share	0.8%	-31.0%	2.1%	2.4%	2.7%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	8.7%	9.7%	13.0%	13.7%	13.9%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	1.7%	1.6%	1.8%	1.9%	1.9%
Operating Margin	9.3%	8.8%	8.7%	8.9%	9.0%
Long Term Debt to Cap Ratio (Ex FAS 115)	17.8%	24.0%	24.6%	24.1%	23.6%
Net Income % Operating Income	108.7%	85.3%	95.4%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	62.8%	71.0%	67.6%	66.8%	66.6%

Company Sector

Insurance - Non-Life

Company Description

CNA is a large commercial P&C carrier with its core businesses focused on the U.S. and U.K. markets. As the company struggled with peer-equivalent profitability for decades, the current and former top management has been working to narrow the company's focus and trim its expense bloat. Given that the company is 90% owned by the Loews Corporation, the current amount of float is maintained with recurring special common shareholder dividends as opposed to share repurchases.

Investment Rationale

While we continue to expect CNA to face some headwinds in attracting shareholder interest due to its low level of float and the weight of a run-off long-term care insurance book, we believe the stock offers an attractive dividend yield while the company looks to grow its float through solid premium growth. The LTCi book overhang and single-digit total return potential based on our price objective drives our Neutral recommendation.

Stock Data

Average Daily Volume 180,448

Quarterly Earnings Estimates

	2022	2023
Q1	1.16A	1.19A
Q2	0.90A	1.13A
Q3	0.78A	0.91E
Q4	1.01A	1.02E



Price objective basis & risk

CNA Financial (CNA)

Our price objective of \$39 is based on 80% of the average consensus large-cap P&C peer P/E multiple (10.5x), compared with a 75-100% range where it has traded in the past. We think the discount is appropriate given the overhang associated with its closed-block long-term care book and its general inability/aversion to repurchasing its own shares, even when trading at a discount to perceived fair value. Trading history around a range validates this relative multiple.

Upside risks include sustained higher interest rates which ameliorate the reserve pressures on the LTCi book and allow the company to earn more income on its investment float. Additional upside risk could come from majority owner Loews buying the remaining limited float trading today. Downside risk is presented by a return to the low interest rate environment, causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also created the risk of missing and exceeding our EPS outlook. The company's recent premium growth could be indicative of adding less/unprofitable clients to its book of business, thus adversely impacting future earnings and increasing the probability of a future reserve charge serves as an additional downside risk.

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
	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
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Axis Capital	AXS	AXS US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Lemonade, Inc.	LMND	LMND 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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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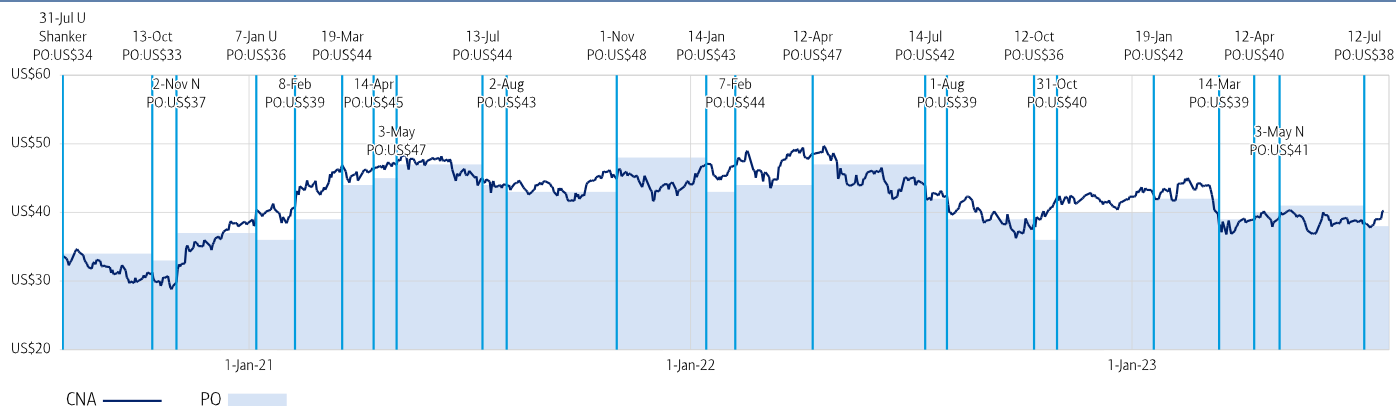
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CNA Financial (CNA) Price Chart



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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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