

Cincinnati Financial Corporation

4Q23 beat on underlying loss ratio; Casualty weighs on reserve development

Reiterate Rating: BUY | PO: 135.00 USD | Price: 112.10 USD

Cincinnati reports 4Q23 adj. EPS of \$2.28

This is a headline beat vs our forecast of \$1.84 and Consensus of \$1.93. The beat was primarily driven by a better-than-expected core loss ratio (+\$0.47/sh) and lower catastrophe losses (+\$0.27/sh), partly offset by lower reserve releases (-\$0.17/sh) and higher expenses (-\$0.12/sh). Consolidated reserve development was modestly favorable, with catastrophe-related reserve offsetting attritional strengthening. Management commentary suggests rate increases remained near 3Q23 levels in the high-single-digit percent range.

Commercial Casualty drives attritional reserve charge

Commercial Casualty drove the largest component of the adverse ex-cat reserve development in the quarter (\$51mn), increasing the Commercial and consolidated loss ratios by +4.7% and +2.6%, respectively. The company indicates the charge is related to higher loss emergence for “older” accident years. Liability reserve strengthening at various peers with 4Q23 results partly mitigates the downside surprise. However, Cincinnati was one of the first insurers to call out concerning casualty trends in mid-2022, and the charge interrupts the line’s recent trajectory of improvement. Despite the prior-year charge, the Commercial Casualty core loss ratio continued its recent path of YoY improvement to 69.6% vs 72.4% in 4Q22 (albeit above our est. 69.0%).

Core loss ratio beats across most lines

The core loss ratio of 54.6% was materially better than our expected 59.2%, with the favorability spread across all lines of business excluding commercial casualty. Notably, the beat included lines that had recently been under pressure, including commercial auto, personal auto, excess & surplus, and workers’ comp. That said, favorable frequency from atypically benign weather likely benefited personal auto results, in line with peer experience. Our 2024E attritional loss ratio forecast remains 58.4%, with slightly more gradual improvement in commercial casualty offset by a better outlook in other lines.

Price objective to \$135

Upon integrating 4Q23 results into our forecasts, our EPS forecasts modestly decrease on a higher expense ratio. Our PO rises to \$135 from \$129, with peer group multiple expansion (10x vs prior 9.6x) and broad market appreciation (S&P 500 – 18.3x vs prior 17.5x) more than offsetting the impact of modestly lower EPS in our sum-of-the-parts calculation. Material upside vs our PO underlies our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.24	6.02	6.20	6.95	7.40
GAAP EPS	(3.06)	11.66	9.73	10.71	11.41
EPS Change (YoY)	-33.9%	42.1%	3.0%	12.1%	6.5%
Consensus EPS (Bloomberg)			6.17	6.74	NA
DPS	2.76	3.00	3.24	3.44	3.64
Valuation (Dec)					
P/E	26.5x	18.6x	18.1x	16.1x	15.1x
GAAP P/E	NM	9.6x	11.5x	10.5x	9.8x
Dividend Yield	2.5%	2.7%	2.9%	3.1%	3.2%

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06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	129.00	135.00
2024E EPS	6.25	6.20
2025E EPS	7.00	6.95
2026E EPS	7.45	7.40
2024E DPS	3.20	3.24

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Stock Data

Price	112.10 USD
Price Objective	135.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	95.01 USD - 130.66 USD
Mrkt Val (mn) / Shares Out (mn)	17,589 USD / 156.9
Free Float	97.8%
Average Daily Value (mn)	71.50 USD
BofA Ticker / Exchange	CINF / NAS
Bloomberg / Reuters	CINF US / CINF.OQ
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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 Cincinnati Financial Corporation

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	7,219	7,958	8,867	9,418	9,853
Net Investment Income	(686)	2,021	1,728	1,848	1,968
Total Revenue	6,557	10,013	10,631	11,302	11,856
Total Cost of Benefits and Claims	NA	NA	NA	NA	NA
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(7,250)	(7,737)	(8,737)	(9,225)	(9,648)
Pre-Tax Operating Earnings	(693)	2,276	1,894	2,078	2,208
Income Tax Expense	207	(433)	(358)	(390)	(414)
Operating Earnings After Tax	673	952	979	1,096	1,164
Net Income (Reported)	(486)	1,843	1,536	1,688	1,794
Diluted Shares	159	158	158	158	157
Operating Earnings Per Share	4.24	6.02	6.20	6.95	7.40
Net Income (Reported) Per Share	(3.06)	11.66	9.73	10.71	11.41

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	12,132	13,791	14,679	15,613	16,583
Total Cash and Investments	23,689	26,264	27,954	29,733	31,582
Total Assets	29,576	32,577	34,538	36,597	38,739
Reserves	NA	NA	NA	NA	NA
LT Debt	841	849	849	849	849
Total Liabilities	19,205	20,671	21,717	22,751	23,800
Total Equity	10,531	12,098	13,012	14,039	15,131
Total Equity (Ex FAS 115)	10,531	12,098	13,012	14,039	15,131
Book Value per Share (Reported)	67.03	77.06	83.04	89.76	96.93
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.6x	2.7x	2.7x	2.6x	2.6x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	11.4%	10.2%	11.4%	6.2%	4.6%
Net Investment Income	-122.0%	-394.6%	-14.5%	7.0%	6.5%
Total Revenue	-31.9%	52.7%	6.2%	6.3%	4.9%
Operating Earnings per Share	-33.9%	42.1%	3.0%	12.1%	6.5%
Asset	-5.3%	10.1%	6.0%	6.0%	5.9%
Reported Book Value per Share	-18.0%	15.0%	7.8%	8.1%	8.0%

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	2.2%	3.1%	2.9%	3.1%	3.1%
Operating Margin	10.3%	9.5%	9.2%	9.7%	9.8%
Long Term Debt to Cap Ratio (Ex FAS 115)	7.4%	6.6%	6.1%	5.7%	5.3%
Net Income % Operating Income	-72.2%	193.6%	156.9%	154.1%	154.1%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Cincinnati is a US insurance carrier founded in 1950. The company primarily focuses on domestic property & casualty business via the independent agency channel. It offers coverage for standard commercial lines, personal lines, reinsurance, life insurance, and global specialty lines. Cincinnati actively writes business in 46 states, although its footprint is predominantly concentrated in the Midwest and Southeast.

Investment Rationale

We believe that Cincinnati's current valuation overly reflects the challenging loss cost environment, and cautious reserving efforts in an uncertain environment tilt EPS risk to the upside. Material upside vs our PO underlies our Buy recommendation.

Stock Data

Average Daily Volume 637,791

Quarterly Earnings Estimates

	2023	2024
Q1	0.89A	1.64E
Q2	1.21A	1.20E
Q3	1.66A	1.41E
Q4	2.28A	1.95E

Price objective basis & risk

Cincinnati Financial Corporation (CINF)

We arrive at our \$135 price objective via summing the value per share of a) the company's insurance operations and b) the common equity portfolio. We estimate \$70/sh for the insurance operations, predicated on 100% the year-ahead peer group P/E multiple (10x) on our op. 2025E EPS forecast. We expect valuation within the long term average range of 95-105% based on current margin and growth projections. We estimate \$65/sh for the common equity portfolio, based on our long-term market appreciation assumption of +6.5% on the marked-to-market portfolio value (\$11bn), tax-effected and multiplied by the S&P 500 forward P/E multiple (18x).

Bidirectional risks to our PO are the magnitude of catastrophic losses, prior year reserve development, the evolution of industry rate and loss cost trends, and equity market movements.

Analyst Certification

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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



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	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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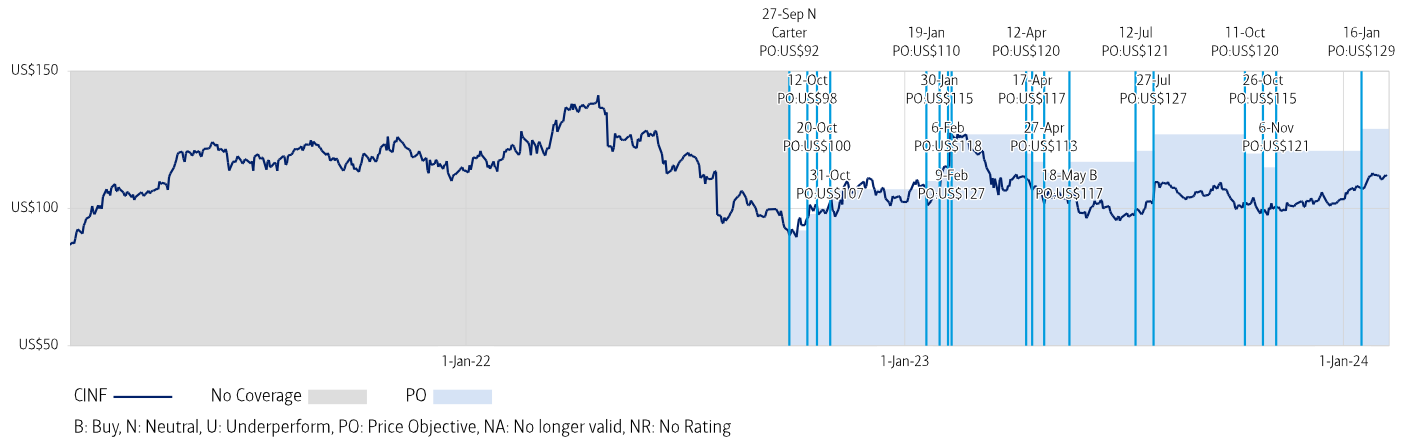
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Cincinnati (CINF) Price Chart



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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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