

Allstate Corp.

3Q23 Cat losses in line with expectations

3Q23 pre-tax cat losses of \$1.18bn just a tad below our prior 3Q23 estimate of \$1.20bn and ALL announced \$166mn of total unfavorable PYD split personal auto & run-off.

3Q23 cat losses. Allstate reported \$1.18bn pre-tax cat losses for 3Q23 (slightly below our prior \$1.20bn) with ~80% of losses due to two wind and hail events.

Adverse PYD: ALL reported unfavorable PYD of \$166mn (ex cat), \$84mn of which was from Allstate Protection, predominantly NatGen, and \$82mn from its annual reserve review in Run-off Property Liability. We had modeled nil for personal auto adverse PYD and \$139mn for run-off claims in the quarter. We update our estimates to reflect the updated cat losses and unfavorable PYD for 3Q23. Our new 3Q23 EPS estimate is \$0.51 from \$0.53 prior.

Reinsurance Update & Capital Adequacy: ALL is contemplating purchasing more tail risk, so a risk return period north of its current bogey of 1/100 on an aggregate basis (multiple events.) This is not a frequency protection (as the risk return periods for SCS are much lower) though it does offer stop loss protection for all business lines, not just catastrophes. We think ALL is approaching reinsurance to better protect its balance sheet, particularly restoration of its contingent capital layer in its internal model; it should serve as a lesser protector of earnings. Likely a 1/1 inception date. We have heard mixed investor sentiment on this deal. For the bulls, this structure may lead to capital relief and in turn a path to return capital to shareholders in the future. For the bears, the structure is nothing to get excited about. We lean more on the cautious side, we would prefer to see a reinsurance structure that is more economic with a higher probability of triggering. At the same time, we do not think ALL is facing a dire "capital issue" as its regulatory based capital, while lower than peers, is far from the point of inviting regulatory intervention. In a counter-intuitive way, lower rating agency capital requirements have provided capital relief and more efficiency, see: [Allstate Corp.: UPDATE: Rating Agency Downgrades: More than Capital](#) 14 Aug 2023. ALL has already recalibrated lower capital requirements on what it chooses to hold, as told by Jess Merten at our FS conference.

Auto rate increases: Allstate brand total auto rate increase efforts are a tad underwhelming, adding +0.9% to its total book during Sept., yet that marks a moderate improvement from +0.2% in Aug. We think ALL's cumulative auto rate increases (see Figure 3) are not near inflecting with loss trend (Figure 2.)

Auto loss trends read-throughs: Based on our fireside chat with Jess Merten, CFO, at the Barclays FS conference last month, ALL is not seeing stabilization of auto loss trends. (See: [Allstate Corp.: Conference Takeaways](#), 12 Sept. 2023.) Yet TRV mentioned on its earnings

| CORE

ALL	EQUAL WEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 108.00
	Unchanged
Price (18-Oct-23)	USD 127.41
Potential Upside/Downside	-15.2%
Market Cap (USD mn)	33327
Shares Outstanding (mn)	261.57
Free Float (%)	98.16
52 Wk Avg Daily Volume (mn)	1.8
Dividend Yield (%)	2.79
Return on Equity TTM (%)	-17.36
Current BVPS (USD)	51.40
Source: Bloomberg	



Link to Barclays Live for interactive charting

U.S. Insurance/Non-Life

Tracy Benguigui

+1 212 526 1561
tracy.benguigui@barclays.com
BCI, US

Alex Barenklau

+1 212 526 1021
alexander.barenklau@barclays.com
BCI, US

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call that physical damage loss trend is moderating. We note, TRV was silent on bodily injury loss trend. PGR's Sept results showed improvement, yet their monthly results are too bouncy by month for us to point to a definitive trend. We are modeling less auto underlying loss ratio sequential improvement (20bps q/q) for ALL (unchanged) than PGR's actual (150bps q/q for total) and TRV's actual (260bps q/q for auto) improvements.

Valuation: Our Equal Weight rating and \$108 price target (unchanged) is based on a 50/50 weighted average of 10.5x (unchanged) our 2024 EPS estimate of \$9.83 (unchanged) and 1.78x (unchanged) our YE24 book value per share ex AOCI estimates of \$63.29 (from \$63.31).

ALL: Quarterly and Annual EPS (USD)

FY Dec	2022	2023			2024			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	2.59A	-1.30A	-1.30A	-1.30A	2.87E	2.87E	3.23E	N/A	321%
Q2	-0.75A	-4.42A	-4.42A	-4.42A	0.95E	0.95E	1.60E	N/A	121%
Q3	-1.53A	0.53E	0.51E	0.51E	2.12E	2.12E	2.61E	133%	316%
Q4	-1.33A	1.90E	1.90E	2.60E	3.90E	3.90E	4.34E	243%	105%
Year	-0.88A	-3.26E	-3.28E	-2.72E	9.83E	9.83E	11.67E	N/A	400%
P/E	N/A	N/A			13.0				

Consensus numbers are from Bloomberg received on 19-Oct-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Allstate Corp. (ALL)						EQUAL WEIGHT	
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (18-Oct-2023)	USD 127.41
Net premiums earned	45,904	50,716	54,789	58,364	8.3%	Price Target	USD 108.00
Net investment income (NII)	2,403	2,441	2,603	2,890	6.3%	Why EQUAL WEIGHT?	
Underwriting income	-2,911	-3,678	417	1,898	N/A	ALL's fundamentals are strong and we look forward to seeing progress on its transformative growth plan.	
Operating income	-239	-864	2,608	4,044	N/A	However, pricing correction actions may stall ALL's progress in actualizing stronger PIF growth.	
Net income	-1,394	-1,241	2,382	3,818	N/A		
Effective tax rate (%)	26.7	21.4	21.0	21.0	-7.7%		
Combined ratio (%)	106.6	107.6	99.2	96.5	-3.3%		
Combined ratio (ex cats & py development) (%)	95.1	93.3	90.5	88.0	-2.5%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR	Upside case	USD 130.00
EPS (adj)	-0.88	-3.28	9.83	15.25	N/A	Loss cost trends abate, returning to 2019 baseline levels. Successful execution of Allstate's transformational growth plans via efficiency gains that is translated to strong PIF growth, particularly in auto. Our upside case of \$130 assumes ~2.1x our '24 BVPS ex AOCI estimate.	
EPS (reported)	-5.12	-4.74	8.98	14.40	N/A		
DPS	3.40	3.56	3.74	3.96	5.2%		
BVPS	57.45	51.06	56.33	66.79	5.1%		
BVPS (ex AOCI)	67.22	58.02	63.29	73.75	3.1%		
Diluted shares (mn)	272	264	265	265	-0.9%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR	Downside case	USD 100.00
Total investments	61,829	66,615	68,351	75,764	7.0%	Steeper acceleration of loss cost trends, particularly on the severity side. Prolonged period of achieving approvals from regulators with respect to requested rate increases.	
Common shareholders' equity (ex AOCI)	17,773	15,386	16,784	19,558	3.2%	Our downside case of \$100 assumes ~10x our '24 EPS estimates.	
Share buybacks	2,496	307	0	0	-100.0%		
Dividends paid	922	937	985	1,043	4.2%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average	Upside/Downside scenarios	
Debt leverage (%)	31.3	33.8	31.9	28.7	31.5		
Financial leverage (%)	39.0	42.4	40.0	36.0	39.3		
Total capital return as a % of op. earnings	-1,430.2	-144.0	37.8	25.8	-377.7		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	1.90	2.20	2.01	1.73	1.96		
P/E (adj) (x)	N/A	N/A	13.0	8.4	10.7		
Dividend yield (%)	2.7	2.8	2.9	3.1	2.9		
ROE (%)	-1.2	-5.2	16.2	22.3	8.0		

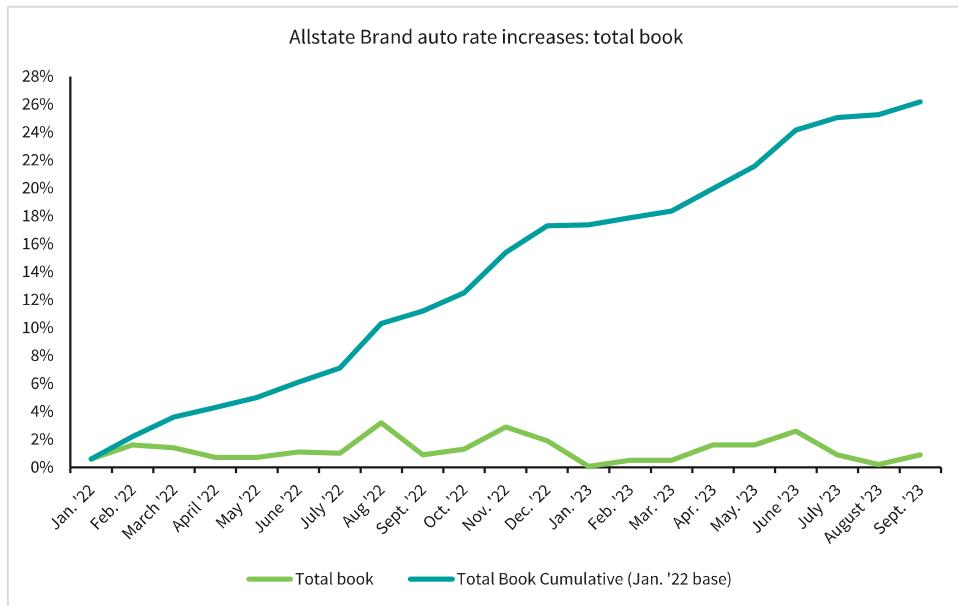


Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

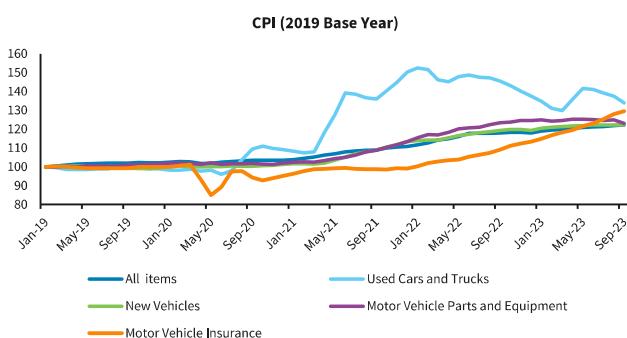
Pricing Journey

ALL recognized 4.5% rate increases in auto in September across 9 locations, incrementally adding 0.9% to its total book during the month. While monthly pricing increases peaked in Sept. '22 (+16.2%), we recognize ALL's cumulative 26.2% pricing increases achieved since Jan. '22. Moreover, it takes 18 months for ALL to earn in pricing increases, prolonging needed improvements per its underlying loss ratios within personal auto.

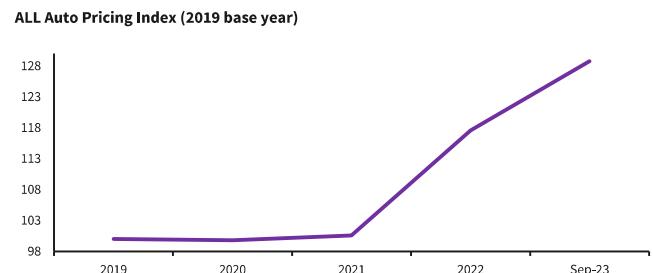
FIGURE 1. Monthly Rate Increases & Cumulative Rate Increases Since Jan. '22

Source: Barclays Research, Co. Reports

Despite ALL's traction raising rates, we do not think the company's pricing has inflected with loss trend. Our basis is comparing ALL's pricing index to CPI auto measures, based to 2019. For instance, ALL's pricing index of 128.8 (as of Sept. '23, with 2019 as the base year) compares to CPI used car prices of 134 on the same basis (which would represent auto physical damage piece of the loss ratio).

FIGURE 2. Auto Related CPI (2019 base year)

Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 3. Pricing Index (2019 base year)

Source: Barclays Research, Co. Reports

Homeowners Pricing: ALL recognized 5.7% rate increases in homeowners in Sept. across 7 locations, incrementally adding 1.6% to its total book during the month.

Model Summary

FIGURE 4. Model Summary

(\$ In Mil, except per share)	2020	2021	2022	2023E	2024E	2025E
P&C insurance premiums	\$37,073	\$42,218	\$45,904	\$50,716	\$54,789	\$58,364
A&H premiums and contract charges	\$1,094	\$1,821	\$1,832	\$1,824	\$1,842	\$1,861
Other revenue	\$1,065	\$2,172	\$2,344	\$2,375	\$2,529	\$2,672
Net investment income	\$1,590	\$3,293	\$2,403	\$2,441	\$2,603	\$2,890
Realized capital gains (losses)	\$1,087	\$1,084	(\$1,072)	(\$137)	\$0	\$0
Total revenues	\$41,909	\$50,588	\$51,411	\$57,219	\$61,763	\$65,786
P&C insurance claims and expenses	22,001	29,318	37,266	42,491	41,418	42,573
Shelter in Place payback expense	948	29	-	-	-	-
A&H policy benefits	516	1,015	1,042	1,041	1,050	1,061
Interest credited to contractholder funds	33	34	-	-	-	-
Operating costs/expenses & amortization of DAC	10,971	13,512	14,080	14,525	15,577	16,618
Pension and other post retirement remeasurement (gains) losses	(51)	(644)	116	(93)	-	-
Restructuring and related charges	253	170	51	54	-	-
Amortization of purchased intangibles	118	376	353	309	226	226
Interest expense	318	330	333	353	339	339
Total costs and expenses	35,107	44,140	53,241	58,679	58,610	60,817
Consolidated Adjusted net income	4,510	4,033	(239)	(864)	2,608	4,044
Effective tax rate	20.2%	20.0%	26.7%	21.4%	21.0%	21.0%
Per share earnings data						
Adjusted net income per diluted common share	\$14.29	\$13.48	(\$0.88)	(\$3.28)	\$9.83	\$15.25
Share information						
Average diluted shares outstanding	315.5	299.2	272.2	264.1	265.2	265.2
Source: Barclays Research, Company Reports						

FIGURE 5. Model Summary Cont'

(\$ In Mil, except per share)	2020	2021	2022	2023E	2024E	2025E
Net premiums written (y/y % growth)	0.9%	15.7%	10.7%	8.5%	6.6%	5.7%
Net premiums earned (y/y% change)	2.8%	13.9%	8.7%	10.5%	8.0%	6.5%
<u>Underwriting ratios</u>						
Claims and claims expense ratio	60.8%	71.4%	83.7%	86.7%	78.5%	76.0%
Expense ratio	26.8%	24.5%	23.0%	20.9%	20.7%	20.5%
Combined ratio	87.6%	95.9%	106.6%	107.6%	99.2%	96.5%
Underlying loss ratio	52.7%	62.5%	72.6%	72.8%	70.2%	67.8%
Pre-tax cat. losses	2,811	3,339	3,112	6,315	4,196	4,369
Catastrophe points	7.9%	8.3%	7.1%	13.1%	8.1%	7.9%
Pre-tax prior year development	60	267	1,725	392	147	138
Underlying combined ratio	79.4%	86.4%	95.1%	93.3%	90.5%	88.0%
<u>Shareholders' equity and returns</u>						
Ending Common Shareholders' equity	28,247	23,209	15,518	13,541	14,939	17,713
Fully diluted book value per share	\$90.5	\$80.4	\$57.5	\$51.1	\$56.3	\$66.8
Adjusted net income return on equity	19.2%	16.9%	-1.2%	-5.2%	16.2%	22.3%
<u>Capital deployment</u>						
Assumed Repurchase Price Per Share	\$98	\$124	\$124	\$118	#DIV/0!	#DIV/0!
# of shares repurchased (in mn)	17.4	26.3	20.1	2.6	-	-
Shares Repurchases	1,700	3,260	2,496	307	-	-
Dividends per share	\$2.16	\$3.24	\$3.40	\$3.56	\$3.74	\$3.96
Total \$ Amount of Dividends	\$673	\$955	\$922	\$937	\$985	\$1,043
Total capital return	\$2,373	\$4,215	\$3,418	\$1,244	\$985	\$1,043
Total capital return, % op. earnings	53%	105%	(1430%)	(144%)	38%	26%
<u>Investment income</u>						
Net investment income	\$2,322	\$3,293	\$2,403	\$2,407	\$2,535	\$2,812
Total Investments	\$94,237	\$64,701	\$61,829	\$66,615	\$68,351	\$75,764

Source: Barclays Research, Company Reports

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Allstate Corp. (ALL, 18-Oct-2023, USD 127.41), Equal Weight/Positive, CD/CE/E/J/K/L/M

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Allstate Corp. (ALL / ALL)

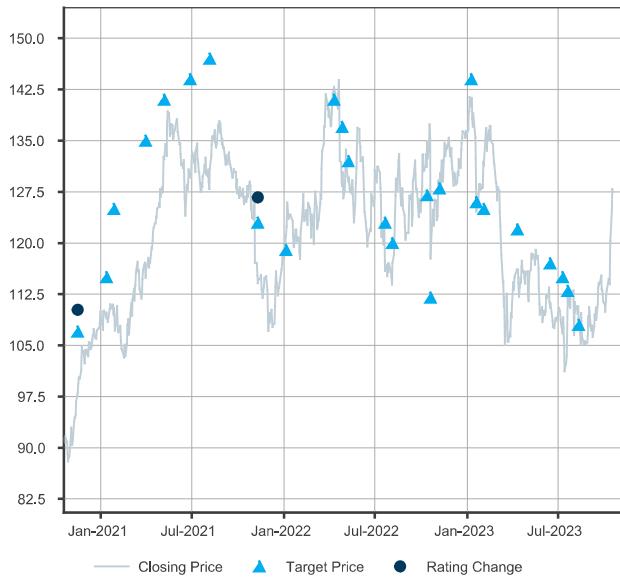
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 127.41** (18-Oct-2023)

Rating and Price Target Chart - USD (as of 18-Oct-2023)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
11-Aug-2023	109.04		108.00
20-Jul-2023	105.79		113.00
10-Jul-2023	108.27		115.00
15-Jun-2023	111.40		117.00
11-Apr-2023	116.11		122.00
03-Feb-2023	131.89		125.00
19-Jan-2023	132.43		126.00
09-Jan-2023	141.37		144.00
07-Nov-2022	128.82		128.00
20-Oct-2022	135.15		112.00
13-Oct-2022	131.13		127.00
05-Aug-2022	113.92		120.00
21-Jul-2022	122.34		123.00
09-May-2022	130.56		132.00
27-Apr-2022	128.98		137.00
11-Apr-2022	141.93		141.00
05-Jan-2022	121.13		119.00
10-Nov-2021	114.11	Equal Weight	123.00
06-Aug-2021	130.82		147.00
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00
31-Mar-2021	114.90		135.00
27-Jan-2021	110.51		125.00
12-Jan-2021	109.78		115.00
16-Nov-2020	98.06	Overweight	107.00

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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Valuation Methodology: Our \$108 price target is based on a 50/50 weighted average of our blended 10.5x our 2024 EPS and 1.78x our 2024 book value per share ex AOCI.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Steeper acceleration of loss cost trends, particularly on the severity side, which would pressure the company's margins. A prolonged period of low interest rates will likely pressure net investment income. Allstate has substantial exposure to natural catastrophe losses, stemming from its large homeowners insurance business. Despite the acquisition being relatively small, integration of National General could be challenging and lead to execution risk in combining business units under one operational model.

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