Hartford Financial Services Group, Inc.

bordier 1844

US Satellite*	Recommended since	30.11.2020	06.12.2024

Country	US	Market capitalization (bn)	USD 35.1		Perf. since reco. (%)	
Sector	Insurance	Free float	99.7%		Hartford Fin. Serv. Group	174.3
Factset	HIG-US	Closing price	USD 121.22		Sector	108.2
ISIN	US4165151048	ESG Risk score*	16.8	Low risk		

Profile

The Hartford Financial Services Group (HIG) is a diversified US insurance company offering property and casualty (P&C) and life insurance. The group operates in the following segments: commercial insurance (46%), group life insurance (31%), personal insurance (18%) and Hartford funds (5%). HIG, which has nearly 20,000 employees, was founded in 1810 and is headquartered in Hartford, Connecticut.

Strengths/opportunities

- Exposure to commercial insurance, where premium rates are rising sharply and sustainably.
- Restructuring underperforming segments.
- "Hartford Next" cost-cutting programme.

Weaknesses/threats

- More sensitive than average to financial markets and employment.
- Exposure to SMEs, which are economically less robust.
- Group life insurance can be volatile

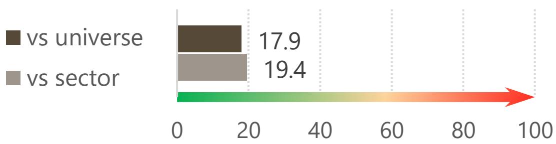
Investment case

- Hartford is a bet on a rebound in economic activity, to which the group is more sensitive than the sector average. Workers' compensation and group life insurance together account for almost two thirds of the group's revenue, and their growth is fairly heavily dependent on the strength of the labour market.
- Commercial lines, with a growth in premium rates > 5% and volumes up 10%, show excellent dynamism and solid profitability, with a combined ratio < 87% at end 2023.
- In the longer term, repricing in some underperforming segments and a more selective approach to the group's network of independent agents should boost profitability. Furthermore, the "Hartford Next" cost-cutting programme will help the group's margins, the aim being to lower expense ratios by 2-2.5% in P&C insurance and by 1.5-2% in group life insurance by 2024. The Group should generate ROE of >15% over 2024-2025.
- Share buyback programme underway, with $2bn remaining of the $3bn authorised by the end of 2024.

Valuation

Based on 2025^{e} P/E, HIG is trading at a 30% discount to the sector average. Based on book value, the discount falls to 15%, which is still not warranted given the group's 20% superior RoE and a dividend yield in line with the sector.

ESG risk vs. universe & sector (percentile)*



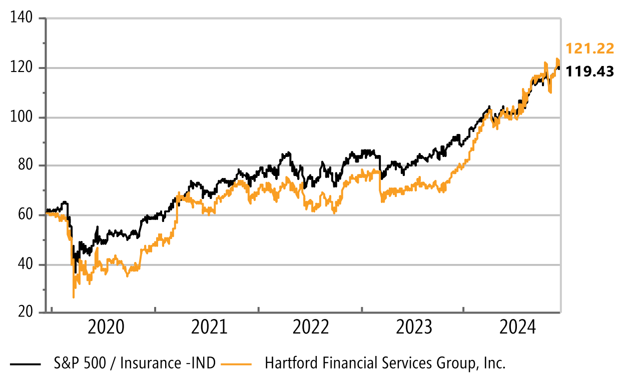
USD	12/2023	2024e	2025e
Sales revenue (mio)	24 527	26 502	28 552
Sales growth	*9.7%*	*8.1%*	*7.7%*
Pretax income (mio)	3 113	3 454	4 003
% of sales	*12.7%*	*13.0%*	*14.0%*
Net income (mio)	2 504	3 025	3 359
Net income growth	*38.0%*	*20.8%*	*11.0%*
Combined ratio	94.9%	94.0%	93.3%
ROE	16.6%	16.4%	17.1%
Dividend yield	1.7%	1.6%	1.7%
PE	10.1x	12.1x	10.4x
P/BV	1.6x	2.0x	1.8x

Factset estimates

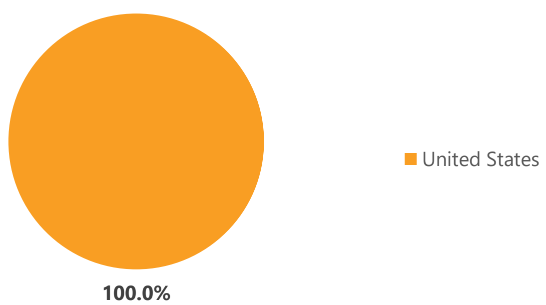
ESG - risks and key points

- HIG's exposure to the economic impact of ESG factors is medium thanks to good governance offset by a few controversies concerning satisfaction with the group's products.
- Management pays closer attention to data privacy and security than the sector average.
- HIG has lent to some controversial sectors (arms and tropical deforestation), sullying its reputation as far as ESG practices are concerned.

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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