

American Equity(AEL)

\$23.55 (As of 08/06/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

Summary

Shares of American Equity have outperformed the industry in a year. With the fixed index and fixed rate annuity products guarantying principal protection, competitive rates of credited interest, tax-deferred growth, guaranteed lifetime income and alternative payout options it is poised to benefit given its targeted demography. This premier fixed-index annuity producer in the independent agent channel remains focused on capitalizing on increasing popularity of index products. Its balance sheet has been strengthened by a rising cash balance and improving debt to capital ratio. It also remains committed to boosting shareholders' value. However, a low interest rate environment has been weighing on the earned yield. Also, rising expenses induce margin contraction concern. Second-quarter bottom line missed the Zacks Consensus Estimate.

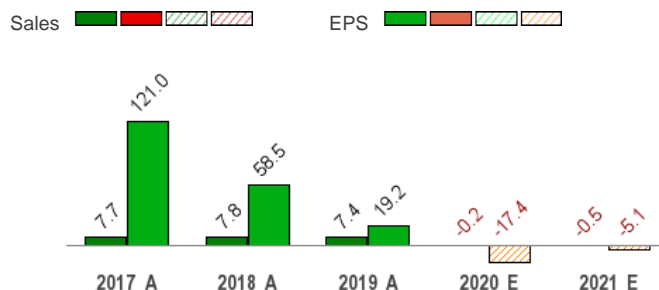
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.16 - \$9.07
20 Day Average Volume (sh)	646,602
Market Cap	\$2.2 B
YTD Price Change	-21.3%
Beta	1.76
Dividend / Div Yld	\$0.30 / 1.3%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Top 32% (81 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.2%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	11/04/2020
Earnings ESP	7.5%
P/E TTM	3.6
P/E F1	4.8
PEG F1	NA
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	572 E	573 E	574 E	579 E	2,291 E
2020	573 A	544 A	552 E	548 E	2,303 E
2019	558 A	571 A	590 A	588 A	2,308 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.15 E	\$1.19 E	\$1.19 E	\$1.19 E	\$4.68 E
2020	\$1.67 A	\$1.01 A	\$1.08 E	\$1.07 E	\$4.93 E
2019	\$0.97 A	\$1.09 A	\$2.54 A	\$1.37 A	\$5.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/06/2020. The reports text is as of 08/07/2020.

Overview

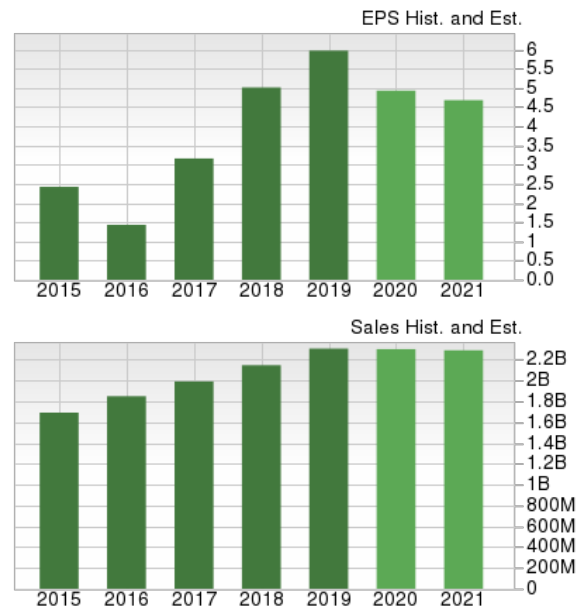
Incorporated in the state of Iowa on Dec 15, 1995, American Equity Investment Life Insurance Company is a leader in the development and sale of fixed index and fixed rate annuity products. The company issues fixed annuity products through its wholly-owned life insurance subsidiaries, American Equity Investment Life Insurance Company, American Equity Investment Life Insurance Company of New York and Eagle Life Insurance Company.

Annuities offer policyholders a tax-deferred means of accumulating retirement savings, as well as a reliable source of income during the payout period.

American Equity Investment Life Insurance Company's products include Fixed index annuities, Annual reset fixed rate annuities, Multi-year fixed rate annuities and Single premium immediate annuities.

American Equity markets its products through a variable cost distribution network, including independent agents through national marketing organizations, broker/dealers, banks and registered investment advisors.

Investment activities are an integral part of the company's business, and net investment income is a significant component of total revenues. Profitability of annuity products is significantly affected by spreads between interest yields on investments, the cost of options to fund the index credits on fixed index annuities and rates credited on fixed-rate annuities and the fixed rate strategy in fixed index annuities.



Reasons To Buy:

- ▲ Shares of American Equity have gained 1.5% in a year, compared to the industry's decline of 11%. Solid fundamentals should help the shares retain the momentum
- ▲ American Equity's target market includes individuals in the age group of 45-75, seeking to accumulate tax-deferred savings or create guaranteed lifetime income. Per the U.S. Census Bureau, Americans aged 65 and older will represent 20% of the total population by 2030 from 13% in 2010. With the company's fixed index and fixed rate annuity products guarantying principal protection, competitive rates of credited interest, tax-deferred growth, guaranteed lifetime income and alternative payout options, American Equity is poised to benefit from this demography.

This premier fixed index annuity producer in the independent agent channel also remains focused on capitalizing on increasing popularity of index products.

- ▲ Net investment income has increased at a five year (2015-2019) CAGR of 6.4% driven by growth in annuity business and increases in invested assets. However, through the first half of 2020, the same decreased 1.1%. Nonetheless, we expect to see a recovery, given increasing popularity of the company's index products. Average yield earned on average invested assets increased to 4.52 in 2019 from 4.46% in 2015, driven by opportunistic replacement of lower yielding securities with higher yielding securities. However, a low interest rate environment has been dragging down investment yield over the last two quarters.
- ▲ The company's balance sheet has strengthened with its cash balance increasing over the last few years and debt to capital ratio improved. Its debt to capitalization of 14.7 at second-quarter 2020 end improved 300 basis points (bps) over 2019 end level and was better than the industry average of 12.3. Also, times interest earned, which indicates how efficiently a company can service debt, was 8.9%, up 170 bps year over year.

Times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, an improving ratio is reassuring for investors. The company also enjoys strong credit ratings from credit rating agencies.

- ▲ Since the company went public, in 2003, it has increased dividend each year, reflecting operational excellence and the company's commitment to return value to its shareholders. Dividends witnessed a 17-year CAGR of 6.7%.
- ▲ Return on equity, a profitability measure to identify how efficiently the company is utilizing its shareholders fund, has been improving over the last several years. It generated average operating return on equity of 15% over the past years. Its trailing twelve months. ROE of 14.2% better the industry average of 11.8%.

American Equity is set to benefit from increasing popularity of index products in the market that includes individuals in the age group of 45-75, a solid balance sheet and effective capital usage.

Reasons To Sell:

- ▼ The majority of American Equity's income is derived from investment spread — the difference between the earned yield of investments and the liability cost of policies. A sustained low rate environment along with higher cash balances has been weighing on earned yield. Investment spread contracted 9 bps in the first half of 2020 with a contraction of 25 bps in investment yield over the same time frame.
- ▼ Total benefits and expenses increased 166% in a five-year span (2015-2019), attributable to increase in interest sensitive and index product benefits, interest expenses as well as other operating costs and expense. Increasing expenses weigh on margins. Net margin contracted 740 basis points over the same time frame. However, total benefits and expenses dropped 63% in the first half of 2020 largely due to favorable change in fair value of embedded derivatives. We will have to wait and see if the momentum continues.
- ▼ The company's return on assets of 0.9% compares unfavorably with the industry average of 1.1%. The return on assets shows the percentage of how profitable a company's assets are in generating revenues.

A low interest rate environment, which weighs on earned yield, and rising expenses that induce margin contraction are likely to weigh on American Equity's performance.

Last Earnings Report

American Equity Q2 Earnings Miss, Revenues Rise Y/Y

American Equity reported second-quarter 2020 adjusted net earnings of \$1.01 per share, which missed the Zacks Consensus Estimate of \$1.15. The bottom line decreased 7.3% on a year-over-year basis.

Net loss came in at \$2.76 per share against earnings of 20 cents in the year-ago quarter. The decline was attributed to tightening of American Equity's own credit spread with improving market conditions; thereby reducing the discount rate used for policyholder liabilities.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	-1.85%
EPS Surprise	-12.17%
Quarterly EPS	1.01
Annual EPS (TTM)	6.59

Operational Update

Total revenues were \$919.9 million, up 30.2% year over year.

Premiums and other considerations more than doubled. Annuity product charges increased 1.5% while net investment income declined 4.7%, all on a year-over-year basis.

Annuity sales of \$559 million decreased 63% year over year. Sequentially, gross sales at American Equity Life and Eagle Life declined 18% and 34%, respectively

Total benefits and expenses were \$1.2 billion, up 80.9% year over year.

Investment spread was 2.39%, down from 2.63% in the year-ago quarter.

Policyholder funds under management of \$53.1 billion at quarter end were down 0.4% from first quarter end.

Financial Update

Cash and cash equivalents were \$2.4 billion as on Jun 30, 2020, compared with \$2.3 billion as on Dec 31, 2019. Total investments were \$55.8 billion, down from \$56.9 billion at 2019 end.

Note payable totaled \$495.4 million, slightly up from \$495.1 million at 2019 end.

Book value per common share excluding AOCI was \$28.85, down 1.6% from 2019 end.

Total debt / total capitalization was 14.7% at second quarter end, improving 300 basis points.

Operating return on equity excluding average AOCI was 23.8%.

Pro forma estimated risk-based capital ratio was 389%.

Recent News

American Equity, Unit Rating Gets Reiterated by AM Best – Jun 26, 2020

American Equity's Long Term ICR of 'bbb-' and existing Long Term Issue Credit Ratings (Long-Term IRs) has been reiterated by AM Best. Concurrently, the Financial Strength Rating (FSR) of A- (Excellent) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of 'a-' of American Equity Investment Life Insurance Company (AEILIC) and its subsidiaries, American Equity Investment Life Insurance Company of New York and Eagle Life Insurance Company has been affirmed. The outlook for all of these Credit Ratings (ratings) is stable

Valuation

American Equity shares are down 21.5% in the year-to-date period but up 1.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 2.8% and 17% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11% and 9.7%, respectively.

The S&P 500 index are up 4.1% in the year-to-date period and 14.3% in the past year.

The stock is currently trading at 0.61x forward 12-months earnings, which compares to 1.32x for the Zacks sub-industry, 2.43x for the Zacks sector and 4.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.4X and as low as 0.23X, with a 5-year median of 0.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 0.66X trailing 12-month book value.

The table below shows summary valuation data for AEL

Valuation Multiples -AEL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.61	1.32	2.43	4.58
	5-Year High	1.4	2.47	2.91	4.58
	5-Year Low	0.23	0.91	1.72	2.83
	5-Year Median	0.89	1.8	2.53	3.713
P/S F12M	Current	0.98	1.82	6.05	3.63
	5-Year High	1.57	10.81	6.66	3.63
	5-Year Low	0.45	1.69	4.97	2.53
	5-Year Median	1.1	3.31	6.06	3.04
P/E F12M	Current	4.91	7.87	16.5	22.69
	5-Year High	16.6	14.89	16.5	22.69
	5-Year Low	2.34	5.51	11.59	15.25
	5-Year Median	8.29	10.28	14.21	17.55

As of 08/06/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Athene Holding Ltd. (ATH)	Neutral	3
Brighthouse Financial, Inc. (BHF)	Neutral	3
BRP Group, Inc. (BRP)	Neutral	3
Lincoln National Corporation (LNC)	Neutral	3
Manulife Financial Corp (MFC)	Neutral	2
Primerica, Inc. (PRI)	Neutral	2
Sun Life Financial Inc. (SLF)	Neutral	3
Voya Financial, Inc. (VOYA)	Neutral	3

Industry Comparison Industry: Insurance - Life Insurance				Industry Peers		
	AEL	X Industry	S&P 500	ATH	LNC	PRI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	2
VGM Score	C	-	-	B	D	C
Market Cap	2.16 B	5.25 B	23.20 B	6.61 B	6.94 B	5.25 B
# of Analysts	6	3	14	2	5	2
Dividend Yield	1.27%	0.00%	1.78%	0.00%	4.45%	1.22%
Value Score	B	-	-	B	C	C
Cash/Price	0.79	0.55	0.07	11.96	2.03	0.07
EV/EBITDA	1.59	2.89	13.21	-20.63	-0.79	6.41
PEG Ratio	NA	0.81	2.94	NA	NA	NA
Price/Book (P/B)	0.43	0.63	3.12	0.42	0.33	3.20
Price/Cash Flow (P/CF)	2.84	5.64	12.27	2.64	5.38	8.59
P/E (F1)	4.96	10.77	21.69	7.24	4.30	14.71
Price/Sales (P/S)	0.62	0.62	2.48	0.41	0.41	2.50
Earnings Yield	20.93%	9.32%	4.39%	13.82%	23.25%	6.80%
Debt/Equity	0.11	0.15	0.77	0.10	0.32	0.03
Cash Flow (\$/share)	8.29	3.00	6.94	12.88	6.68	15.25
Growth Score	F	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	27.75%	9.89%	10.46%	3.61%	13.10%	23.51%
Proj. EPS Growth (F1/F0)	-17.48%	-12.34%	-6.80%	-32.28%	90.55%	5.58%
Curr. Cash Flow Growth	-24.46%	20.42%	5.39%	90.17%	-29.24%	9.74%
Hist. Cash Flow Growth (3-5 yrs)	9.46%	8.98%	8.55%	27.22%	-2.94%	13.51%
Current Ratio	0.13	0.24	1.33	0.57	0.21	0.54
Debt/Capital	10.17%	12.60%	44.50%	8.68%	24.52%	3.22%
Net Margin	7.10%	6.17%	10.13%	13.50%	1.21%	17.29%
Return on Equity	14.19%	6.34%	14.39%	7.93%	8.21%	23.12%
Sales/Assets	0.05	0.11	0.51	0.11	0.05	0.15
Proj. Sales Growth (F1/F0)	-0.22%	0.00%	-1.51%	-3.71%	3.26%	5.47%
Momentum Score	A	-	-	D	D	F
Daily Price Chg	-12.94%	-1.67%	-0.04%	-3.44%	-7.90%	3.41%
1 Week Price Chg	-0.51%	-2.05%	0.14%	-3.41%	0.16%	-0.07%
4 Week Price Chg	5.37%	8.05%	7.78%	15.25%	9.81%	19.81%
12 Week Price Chg	32.15%	16.75%	17.48%	38.87%	10.52%	29.38%
52 Week Price Chg	1.82%	-11.42%	0.68%	-16.40%	-37.21%	12.48%
20 Day Average Volume	646,602	193,240	2,057,775	1,563,235	1,853,485	138,209
(F1) EPS Est 1 week change	-0.87%	0.00%	0.00%	0.00%	-1.30%	0.00%
(F1) EPS Est 4 week change	-2.71%	0.00%	1.36%	-2.18%	-2.82%	0.00%
(F1) EPS Est 12 week change	-1.82%	-1.82%	1.57%	-3.38%	-3.94%	0.00%
(Q1) EPS Est Mthly Chg	0.84%	0.74%	0.54%	18.57%	-7.09%	0.63%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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