

AFLAC Inc.(AFL)

\$42.85 (As of 02/28/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

Summary

Aflac Inc.'s earnings per share of \$1.03 beat the Zacks Consensus Estimate by 1.98% and increased 1% year over year. The company's shares have underperformed the industry in a year's time. Strong performance by the company's U.S. segment, driven by continuous investment in its platform, distribution and customer experience, over the years, is impressive. The acquisition of Argus will provide a platform to build the company's network dental and vision products and further strengthen its U.S. segment. A solid balance sheet with disciplined capital management enables investment in business. The company has been increasing its dividend consistently for the past 37 years. However, its increasing expenses are weighing on margins. Pressure on Japan business is another concern.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.18 - \$41.92
20 Day Average Volume (sh)	3,189,201
Market Cap	\$31.0 B
YTD Price Change	-19.0%
Beta	0.67
Dividend / Div Yld	\$1.12 / 2.6%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 14% (36 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/23/2020
Earnings ESP	1.6%
P/E TTM	9.7
P/E F1	9.6
PEG F1	2.8
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,527 E	5,508 E	5,529 E	5,501 E	21,771 E
2020	5,489 E	5,470 E	5,486 E	5,461 E	21,844 E
2019	5,657 A	5,511 A	5,536 A	5,603 A	22,307 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.16 E	\$1.18 E	\$1.17 E	\$1.17 E	\$4.66 E
2020	\$1.12 E	\$1.13 E	\$1.12 E	\$1.08 E	\$4.45 E
2019	\$1.12 A	\$1.13 A	\$1.16 A	\$1.03 A	\$4.44 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 02/28/2020. The reports text is as of 03/02/2020.

Overview

Aflac Incorporated was formed in 1973 under the laws of the state of Georgia. The company is a general business holding company and oversees the operations of its subsidiaries by providing management services and making capital available.

Its principal business is voluntary supplemental and life insurance, which is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and, effective Apr 1, 2018, through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan).

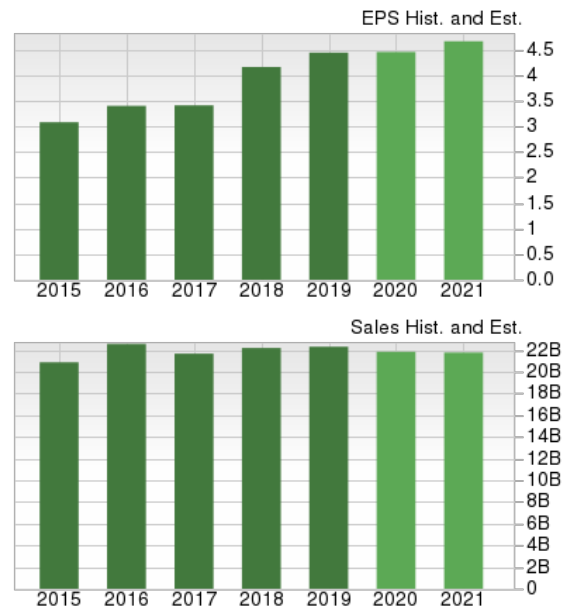
Prior to Apr 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance.

On Apr 1, 2018, the company completed the conversion of Aflac Japan from a branch to a subsidiary incorporated as a Japanese stock corporation. The conversion was accounted as tax-neutral and did not have a material impact on the daily operations of either Aflac Japan or Aflac U.S. The company also expects to obtain enhanced flexibility in capital management and business development as a result of the conversion.

Aflac primarily operates in the United States and Japan.

Aflac Japan (70% of the total 2019 revenues) offers supplemental insurance products including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities.

Aflac U.S. (30%) markets and administers group products through Continental American Insurance Company (CAIC). It also offers insurance products, including accident/disability plans, cancer plans, short-term disability plans, sickness and hospital indemnity plans, hospital intensive care plans, fixed-benefit dental plans, vision care plans, long-term care plans and life insurance products.



Reasons To Buy:

- ▲ **Share Price Performance:** The stock has outperformed its industry in a year's time. However, going forward, its strong fundamentals and various growth initiatives are likely to support shares.
- ▲ **Strong U.S Segment:** Aflac U.S. continues to perform strongly as evident from a revenue CAGR of 2.3% from 2014-2019. The company has undertaken a number of growth initiatives in the U.S business such as the adoption of Everwell and One Pay Day for increased penetration, delivery of value-added services and increased client retention; product partnering to drive improved account values and employee access; and investment in administrative capabilities. Per the company, investments made in distribution and customer experience will promote increased productivity, stable persistency, and improved long-term economics. Recently, the company completed the acquisition of Argus Dental & Vision. This is likely to boost its growth as Argus has a strong reputation for servicing Medicare and Medicaid dental and vision members. For 2020, the company expects Aflac U.S. to generate earned premium growth of 1% and maintain stable persistency.
- ▲ **Expansion of Global Investments:** The company's asset management subsidiary, Aflac Global Investments, will buy minority stake in Varagon Capital Partners, L.P., a leading direct lender to middle market companies. The unit will also make a new multi-year investment commitment of up to \$3 billion to Varagon to invest in middle market loans. This move reflects Aflac's efforts to build long-term relationship with Varagon, which will manage its middle-market private debt portfolio investments. These loans will be on behalf of Aflac Japan and Aflac U.S. The deal reflects the significant commitment Aflac has to maintain a world-class investment platform that will generate sustainable risk-adjusted net investment income despite the headwinds of very low interest rates impacting its general account investment portfolio.
- ▲ **Solid Capital Position:** Aflac continues to maintain strong risk-adjusted capital at its operating subsidiaries supported by consistent earnings and good liquidity. The company also has a strong capital management strategy in place. The year 2019 marked the 37th consecutive dividend hike. For 2020, the company expects repurchasing shares of \$1.3 million to \$1.7 billion, compared with \$1.6 million shares repurchased in 2019.

Consistent operating results at U.S segment, strong risk-adjusted capital at its operating subsidiaries, solid capital management will drive long term growth.

Reasons To Sell:

- ▼ **Tepid Guidance, Weak Earnings Growth** : For 2020, the company expects earnings per share in the range of \$4.32 to \$4.52, which is down by 2 cents per share year over year. The company's long term earnings growth rate of 3.4% is lower than the industry's growth of 6.2%.
- ▼ **Japan Business Under Pressure:** In the second half of 2019 and the first quarter of 2020, JPI and JPC (collectively accounted for approximately 25% of Aflac Japan's third sector sales in 2019), each an affiliate of Japan Post Holdings, were found guilty of business malpractices and were put on three month suspension (starting Dec 27, 2019) to sell JPI insurance products. The investigation on the units' malpractices is ongoing and is likely to be completed by the end of June 2020. Consequently, there remains an uncertainty on the re-initiation of sales of JPI insurance products. The company believes that sales of Aflac Japan cancer insurance through JPC and JPI are unlikely to return to 2018 levels in the near term. For 2020, the company expects a decline in the range of 0.7% in third sector and first sector protection earned premium for the year.
- ▼ **Increase in Expenses:** The company is continuing to invest in digital initiatives designed to address speed up development, sales, administration, and customer experience related to its product. These initiatives take many forms and will lead to elevated near-term expense ratios. Total operating and acquisition expenses were up 2.5% in 2019, which equaled to the rise in revenues. The company anticipates expense ratios to remain elevated in 2020 and 2021, then trending down beginning in the 2022 time frame, as the top line increases in response to its key initiatives and it begins delivering on expense efficiencies. We might, therefore see a pressure on margins till then.
- ▼ **Overvalued:** The company's price-to-book value ratio of 1.09 makes it look expensive when compared with the industry's average of 0.93. Also, its long-term earnings growth rate of 3.4% is lower than the industry's growth of 6.2%.

Pressure on business in Japan might hurt the top line. Increase in expenses is likely to weigh on margins.

Last Earnings Report

Aflac's Q4 Earnings and Revenues Surpass Estimates

Aflac Inc.'s earnings per share of \$1.03 beat the Zacks Consensus Estimate by 1.98% and increased 1% year over year.

Total revenues in the quarter increased 9.3% year over year to \$5.6 billion and surpassed the Zacks Consensus Estimate by 0.85%.

Further, total acquisition and operating expenses inched up 5.5% year over year to \$1.56 billion.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	0.85%
EPS Surprise	1.98%
Quarterly EPS	1.03
Annual EPS (TTM)	4.44

Strong Segmental Results

Aflac Japan

Total revenues increased 2.2% year over year to \$3.8 billion, led by a 2.1% increase in premium income to \$3.2 billion, and 2.1% rise in net investment income to \$684 million. Pre-tax operating earnings decreased 5.1% from the prior-year quarter to \$757 million.

Aflac United States

Total revenues increased 1.6% year over year to \$1.64 billion, led by a 1.1% increase in premium income to \$1.4 billion, partly offset by 1.6% decline in net investment income to \$180 million. Pre-tax operating earnings from the U.S. segment were \$275 million, up 0.4% year over year.

Dividend Update

The board of directors declared the first quarter dividend of 28 cents per share, payable on Mar 2, 2020 to shareholders of record at the close of business on Feb 19, 2020.

Share Repurchase Update

The company purchased 8.9 million shares worth \$470 million during the fourth quarter.

Solid Financial Position (as of Dec 31, 2019)

Total investments and cash were \$138.1 billion, up 9.4% year over year.

Total assets were \$152.8 billion, up 8.8% year over year.

Shareholders' equity (excluding AOCI) was \$28.9 billion, up 23.4% year over year.

Recent News

Aflac Announces Partnership with Varagon Capital Partners – Jan 8, 2020

Aflac Global Investments, the asset management subsidiary of Aflac Incorporated, has announced that it has entered into a definitive agreement to purchase a significant non-controlling minority interest in Varagon Capital Partners, L.P. (Varagon), a direct lending asset manager that has made over \$14.5 billion of financing commitments as of Dec 31, 2019. In addition, Aflac Global Investments is making a multi-year commitment to build a portfolio of up to \$3.0 billion of middle market loans on behalf of Aflac Japan and Aflac U.S., subject to additional terms and conditions.

Aflac Completes Acquisition of Florida-based Argus Holdings – Nov 7, 2019

Aflac has completed acquisition of Florida-based Argus Holdings, LLC and its subsidiary Argus Dental & Vision, Inc., a premier benefits organization and national network dental and vision company.

The transaction will not alter Aflac Incorporated's earnings or capital management outlook for 2019 and is not expected to impact Aflac U.S. sales guidance for the year. Moreover, the transaction does not impact Aflac Incorporated's overall capital management strategy including share repurchase guidance of \$1.3 to \$1.7 billion for 2019.

Valuation

Aflac shares are down 12.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are down 15.9% and 3.9%, respectively.

The S&P 500 index is up 4.8% in the past year.

The stock is currently trading at 9.6X forward 12-month price to earnings, which compares to 8.4X for the Zacks sub-industry, 13.2X for the Zacks sector and 16.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.4X and as low as 8.7X, with a 5-year median of 11.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$45 price target reflects 10X price to earnings.

The table below shows summary valuation data for AFL

Valuation Multiples - AFL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.55	8.43	13.17	16.89
	5-Year High	13.44	13.13	16.21	19.34
	5-Year Low	8.74	8.43	12.01	15.18
	5-Year Median	11.16	10.36	13.97	17.44
P/S F12M	Current	1.42	1.15	6.55	3.12
	5-Year High	1.94	1.54	6.65	3.43
	5-Year Low	1.12	1.05	5.39	2.54
	5-Year Median	1.48	1.33	6.04	3.01
P/B TTM	Current	1.09	0.93	2.51	4.28
	5-Year High	1.64	1.6	2.89	4.9
	5-Year Low	1.09	0.93	1.83	2.85
	5-Year Median	1.44	1.37	2.52	3.62

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 254)



Top Peers

CNA Financial Corporation (CNA)	Outperform
MetLife, Inc. (MET)	Outperform
The Allstate Corporation (ALL)	Neutral
Chubb Limited (CB)	Neutral
The Hartford Financial Services Group, Inc. (HIG)	Neutral
The Progressive Corporation (PGR)	Neutral
The Travelers Companies, Inc. (TRV)	Neutral
American International Group, Inc. (AIG)	Underperform

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AFL Neutral	X Industry	S&P 500	AIG Underperform	CB Neutral	CNA Outperform
VGM Score	C	-	-	C	B	D
Market Cap	30.96 B	1.14 B	21.48 B	36.82 B	65.73 B	11.29 B
# of Analysts	8	3	13	7	8	2
Dividend Yield	2.61%	1.17%	2.07%	3.04%	2.07%	3.56%
Value Score	C	-	-	B	C	D
Cash/Price	0.11	0.11	0.04	0.61	0.02	0.16
EV/EBITDA	6.11	5.49	12.57	6.76	12.44	8.90
PEG Ratio	2.88	1.64	1.84	0.91	1.32	2.02
Price/Book (P/B)	1.07	1.04	2.88	0.55	1.19	0.92
Price/Cash Flow (P/CF)	6.84	8.25	11.58	4.03	13.29	11.78
P/E (F1)	9.89	19.27	16.87	9.13	13.20	10.08
Price/Sales (P/S)	1.39	1.46	2.34	0.74	1.86	1.05
Earnings Yield	10.39%	5.19%	5.91%	10.96%	7.58%	9.93%
Debt/Equity	0.23	0.00	0.70	0.53	0.24	0.22
Cash Flow (\$/share)	6.26	4.55	6.94	10.45	10.91	3.53
Growth Score	D	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	9.43%	10.16%	10.85%	-6.76%	-0.89%	10.52%
Proj. EPS Growth (F1/F0)	0.28%	0.80%	6.79%	0.56%	8.70%	14.90%
Curr. Cash Flow Growth	2.80%	4.72%	5.92%	41.46%	-7.34%	12.18%
Hist. Cash Flow Growth (3-5 yrs)	9.14%	8.51%	8.38%	-10.95%	7.11%	0.21%
Current Ratio	0.06	0.36	1.23	0.24	0.34	0.24
Debt/Capital	18.49%	0.11%	42.53%	34.40%	19.94%	17.99%
Net Margin	14.81%	11.99%	11.57%	6.73%	12.61%	9.29%
Return on Equity	11.76%	10.48%	16.80%	6.28%	8.59%	9.97%
Sales/Assets	0.15	0.22	0.54	0.10	0.20	0.18
Proj. Sales Growth (F1/F0)	-2.07%	-2.07%	4.07%	-0.48%	3.54%	3.81%
Momentum Score	A	-	-	D	B	B
Daily Price Chg	-3.49%	-1.28%	-1.44%	-2.88%	-3.38%	-2.78%
1 Week Price Chg	-2.42%	0.00%	-0.94%	0.25%	-0.49%	-6.10%
4 Week Price Chg	-19.21%	-5.13%	-10.98%	-17.82%	-5.91%	-8.82%
12 Week Price Chg	-18.72%	-6.46%	-7.84%	-17.56%	-3.50%	-4.26%
52 Week Price Chg	-12.80%	-7.49%	1.20%	-2.41%	8.31%	-3.79%
20 Day Average Volume	3,189,201	103,919	2,169,477	6,025,710	1,881,047	239,999
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.16%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.09%	-8.71%	0.37%	6.68%
(F1) EPS Est 12 week change	-1.12%	-0.64%	-0.24%	-9.27%	-0.13%	6.68%
(Q1) EPS Est Mthly Chg	1.82%	1.82%	-0.72%	-9.35%	0.47%	7.33%

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	C
Growth Score	D
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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