

AFLAC Inc.(AFL)

\$36.77 (As of 07/24/20)

Price Target (6-12 Months): **\$39.00**

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:B

Value: A

Growth: C

Momentum: D

Summary

Aflac's strong performance at the U.S. is commendable. The acquisition of Argus will provide a platform to build the company's network of dental and vision products and further strengthen its U.S. segment. Aflac's deal with Varagon Capital Partners, which will manage its middle-market private debt portfolio investments, bodes well. Its shares have underperformed the industry in a year's time. Nevertheless, a solid balance sheet with disciplined capital management is impressive. It has been hiking its dividend consistently for the past 37 years. However, its increasing expenses due to investment in digital initiatives to speed up sales, administration and other activities are weighing on its margins. Pressure on Japan business is another concern. Scrapping down of 2020 guidance due to COVID-19 led uncertainty is another concern.

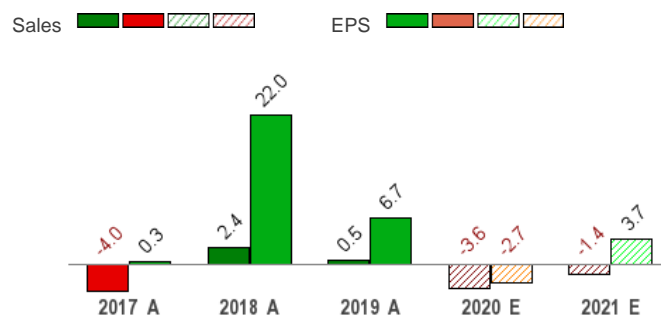
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.07 - \$23.07
20 Day Average Volume (sh)	2,988,859
Market Cap	\$26.4 B
YTD Price Change	-30.5%
Beta	0.89
Dividend / Div Yld	\$1.12 / 3.0%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 46% (115 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	07/28/2020
Earnings ESP	4.9%
P/E TTM	8.1
P/E F1	8.5
PEG F1	2.5
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,359 E	5,323 E	5,326 E	5,286 E	21,212 E
2020	5,162 A	5,454 E	5,423 E	5,380 E	21,510 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	\$1.11 E	\$1.10 E	\$1.11 E	\$1.11 E	\$4.48 E
2020	\$1.21 A	\$1.03 E	\$1.04 E	\$1.00 E	\$4.32 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 07/24/2020. The reports text is as of 07/27/2020.

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).

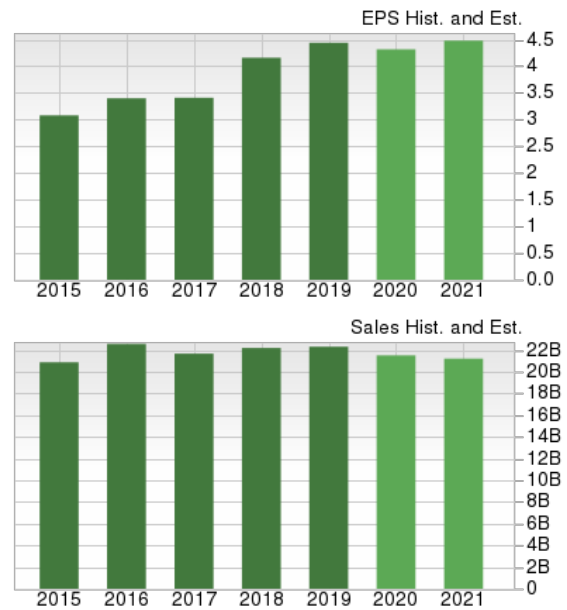
Prior to Apr 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. 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 underperformed its industry in a year's time. Nevertheless, going forward, its strong fundamentals and various growth initiatives are likely to support shares.
- ▲ **Stable U.S. Segment:** Aflac U.S. continues to perform strongly as evident from a revenue CAGR of 2.3% from 2014-2019. In the first quarter, the same was up 2.9% year over year. 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. Last year in November, the company completed the buyout 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. The company is to acquire Zurich North America's U.S. Corporate Life and Pensions (Group Benefits) business, which will further enhance its position in broker distribution network in the United States. However, for the current year, earned premiums may decline if the unemployment level rises. Nevertheless, the economic stimulus offers to support and stabilize small business and employment will be helpful.
- ▲ **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 and the company announced that it will maintain its dividend growth track despite the COVID-19-induced uncertainty. The company's total debt to total capital of 20.4% is lower than its industry's figure of 20.8%. Further, the company's times interest earned of 18.4x is good when compared with the industry's figure of 16.5x, implying that its earnings are sufficient to cover interest obligations.

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:

- ▼ **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. In the first quarter of 2020, net premium dipped 0.9% and revenues were flat year over year while total sales were down 25.4%.
- ▼ **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 3.8% in the first quarter of 2020. 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.
- ▼ **Guidance Withdrawn:** Plagued by coronavirus-led uncertainty, the company suffered sales declines in the first quarter and through April. It therefore scrapped its 2020 earnings guidance. Also management is considering to buy back half of its previously-declared share buyback authorization of nearly \$1,300-\$1,700 million to preserve its financial flexibility. Thus, the bottom line will be bereft of the accretion that share buybacks usually provide. For 2020, The company expects to record a pre-tax loss for the full year 2020 in a range of \$100 million to \$120 million. This incorporates increased interest expense from its recent global yen and U. S. dollar debt issuances of approximately \$1.5 4 billion and increased philanthropic donations to support those individuals who are at the front line and fight against COVID-19.
- ▼ **Overvalued:** The company's price-to-book value ratio of 1 makes it look expensive when compared with the industry's average of 0.89.

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

Last Earnings Report

Aflac's Q1 Earnings Beat Estimates

Aflac Inc.'s earnings per share of \$1.21 beat the Zacks Consensus Estimate by 9.01% and also increased 8% year over year.

Total revenues in the quarter declined 8.8% year over year to \$5.2 billion and also missed the Zacks Consensus Estimate by 6.13%.

Further, total acquisition and operating expenses inched up 3.8% year over year to \$1.5 billion.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-6.13%
EPS Surprise	9.01%
Quarterly EPS	1.21
Annual EPS (TTM)	4.53

Strong Segmental Results

Aflac Japan

Total revenues remained unchanged year over year at \$3.8 billion, led by a 0.9% decrease in premium income to \$3.2 billion, partly offset by a 5.2% increase in net investment income to \$642 million. Premium declined due to lower sale of protection-type first sector and third-sector products. Pre-tax operating earnings inched up 2.5% from the prior-year quarter to \$855 million. Results of the segment in the quarter were affected primarily by a reduction in cancer insurance sales through Japan Post.

Aflac United States

Total revenues rose 2.9% year over year to \$1.7 billion, led by a 1.5% increase in premium income to \$1.5 billion. Net investment income was steady at \$177 million. Pre-tax operating earnings from the U.S. segment were \$326 million, up 0.9% year over year.

Dividend Update

The board of directors declared the company's second-quarter dividend of 28 cents per share, payable Jun 1, 2020 to its shareholders of record on May 20.

Share Repurchase Update

The company bought back 10 million shares worth \$449 million during the first quarter.

Solid Financial Position (as of Mar 31, 2020)

Total investments and cash were \$137 billion, up 4.3% year over year.

Total assets were \$151.6 billion, up 4.1% year over year.

Shareholders' equity (excluding AOCI) was \$22.2 billion, up 2.8% year over year.

Adjusted book value per share was \$30.92, up 7% year over year.

Recent News

Aflac Boosts U.S. Product Suite, Acquires Group Benefits Unit – Mar 20, 2020

Aflac Incorporated unveiled that two of its insurance subsidiaries have signed a deal to acquire the Group Benefits business of Zurich North America.

Per the agreement, Aflac's subsidiaries will reinsure Zurich North America's group life and disability policies in force on an indemnity basis. The deal is likely to fetch premiums of around \$115 million annually. Along with an absence management platform to manage the absence of employees, Aflac will also acquire Zurich North America's assets in a bid to boost its group life and disability business.

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.

Valuation

Aflac shares are down 30.5% in the year-to-date period and down 30.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.4% and 16.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.4% and 12.4%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and up 6.9% in the past year.

The stock is currently trading at 8.34x forward 12-month earnings, which compares to 7.72x for the Zacks sub-industry, 16.65x for the Zacks sector and 22.51x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.44x and as low as 5.63x, with a 5-year median of 11.16x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$39 price target reflects 8.84x forward earnings.

The table below shows summary valuation data for AFL

Valuation Multiples - AFL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.34	7.72	16.65	22.51
	5-Year High	13.44	13.13	16.65	22.51
	5-Year Low	5.63	6.7	11.59	15.25
	5-Year Median	11.16	10.35	14.16	17.52
P/S F12M	Current	1.23	1.02	6.04	3.55
	5-Year High	1.94	1.54	6.66	3.55
	5-Year Low	0.84	0.9	4.96	2.53
	5-Year Median	1.48	1.31	6.06	3.02
P/B TTM	Current	1	0.89	2.43	4.4
	5-Year High	1.64	1.6	2.91	4.56
	5-Year Low	0.64	0.57	1.72	2.83
	5-Year Median	1.43	1.35	2.53	3.71

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 46% (115 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Allstate Corporation (ALL)	Neutral	3
Chubb Limited (CB)	Neutral	4
CNA Financial Corporation (CNA)	Neutral	4
MetLife, Inc. (MET)	Neutral	3
The Progressive Corporation (PGR)	Neutral	3
The Travelers Companies, Inc. (TRV)	Neutral	4
American International Group, Inc. (AIG)	Underperform	5
The Hartford Financial Services Group, Inc. (HIG)	Underperform	3

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AFL	X Industry	S&P 500	AIG	CB	CNA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	5	4	4
VGM Score	B	-	-	C	B	C
Market Cap	26.38 B	1.13 B	22.16 B	26.97 B	60.89 B	9.21 B
# of Analysts	6	3	14	6	5	2
Dividend Yield	3.05%	0.85%	1.81%	4.09%	2.31%	4.36%
Value Score	A	-	-	B	B	B
Cash/Price	0.16	0.20	0.06	1.01	0.09	0.16
EV/EBITDA	4.87	4.87	13.07	2.99	10.64	7.83
PEG Ratio	2.46	1.05	3.03	1.20	NA	2.78
Price/Book (P/B)	1.00	0.98	3.11	0.45	1.17	0.89
Price/Cash Flow (P/CF)	5.87	8.56	12.27	3.00	11.45	9.62
P/E (F1)	8.45	14.75	21.88	12.03	19.47	13.91
Price/Sales (P/S)	1.21	1.31	2.38	0.52	1.70	0.89
Earnings Yield	11.75%	4.76%	4.34%	8.30%	5.14%	7.19%
Debt/Equity	0.26	0.00	0.76	0.58	0.26	0.26
Cash Flow (\$/share)	6.26	3.99	7.01	10.45	11.78	3.53
Growth Score	C	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	9.79%	10.45%	10.82%	-1.48%	-0.23%	12.28%
Proj. EPS Growth (F1/F0)	-2.78%	-4.31%	-9.01%	-43.32%	-31.47%	-32.03%
Curr. Cash Flow Growth	2.80%	0.34%	5.47%	41.46%	0.06%	12.18%
Hist. Cash Flow Growth (3-5 yrs)	10.44%	8.80%	8.55%	-3.88%	8.77%	0.21%
Current Ratio	0.05	0.39	1.31	0.27	0.31	0.23
Debt/Capital	20.38%	0.07%	44.41%	36.41%	20.93%	20.55%
Net Margin	13.49%	8.25%	10.46%	8.59%	10.21%	5.76%
Return on Equity	11.84%	7.15%	15.13%	4.31%	8.69%	8.40%
Sales/Assets	0.14	0.20	0.54	0.10	0.21	0.17
Proj. Sales Growth (F1/F0)	-3.57%	-0.67%	-2.06%	-5.72%	2.59%	0.72%
Momentum Score	D	-	-	C	F	F
Daily Price Chg	-0.59%	-0.30%	-0.65%	-1.76%	-0.32%	-0.59%
1 Week Price Chg	3.87%	3.72%	3.82%	6.71%	5.86%	7.65%
4 Week Price Chg	2.62%	4.33%	4.96%	0.16%	4.94%	5.01%
12 Week Price Chg	-1.26%	1.26%	9.30%	23.12%	24.90%	7.47%
52 Week Price Chg	-31.62%	-20.28%	-2.82%	-45.15%	-10.66%	-29.37%
20 Day Average Volume	2,988,859	137,362	2,026,477	5,919,255	1,568,950	241,009
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.26%	-7.05%
(F1) EPS Est 4 week change	-0.50%	-0.50%	0.15%	-11.96%	-29.36%	-20.00%
(F1) EPS Est 12 week change	-1.64%	-1.64%	-3.24%	-34.44%	-30.46%	-30.29%
(Q1) EPS Est Mthly Chg	-0.58%	-1.21%	0.00%	-6.33%	-1.14%	0.00%

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	A
Growth Score	C
Momentum Score	D
VGM Score	B

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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