

AFLAC Inc.(AFL)

\$51.83 (As of 01/27/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: B

Summary

Aflac's shares have outperformed 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. Favorable earnings guidance for 2019 instills investors' confidence in the company. However, its increasing expenses are weighing on margins. Pressure on Japan business is another concern.

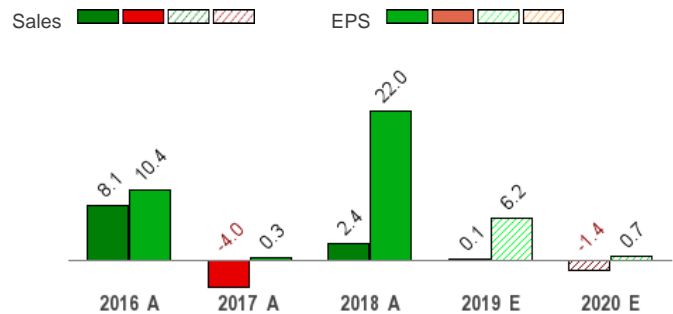
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.18 - \$46.96
20 Day Average Volume (sh)	2,748,743
Market Cap	\$38.0 B
YTD Price Change	-2.0%
Beta	0.70
Dividend / Div Yld	\$1.08 / 2.1%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 15% (39 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.4%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/04/2020
Earnings ESP	0.3%
P/E TTM	11.7
P/E F1	11.7
PEG F1	3.4
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,582 E	5,531 E	5,552 E	5,519 E	21,896 E
2019	5,657 A	5,511 A	5,536 A	5,556 E	22,204 E
2018	5,464 A	5,589 A	5,577 A	5,481 A	22,188 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.10 E	\$1.12 E	\$1.11 E	\$1.10 E	\$4.45 E
2019	\$1.12 A	\$1.13 A	\$1.16 A	\$1.01 E	\$4.42 E
2018	\$1.05 A	\$1.07 A	\$1.03 A	\$1.02 A	\$4.16 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 01/27/2020. The reports text is as of 01/28/2020.

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).

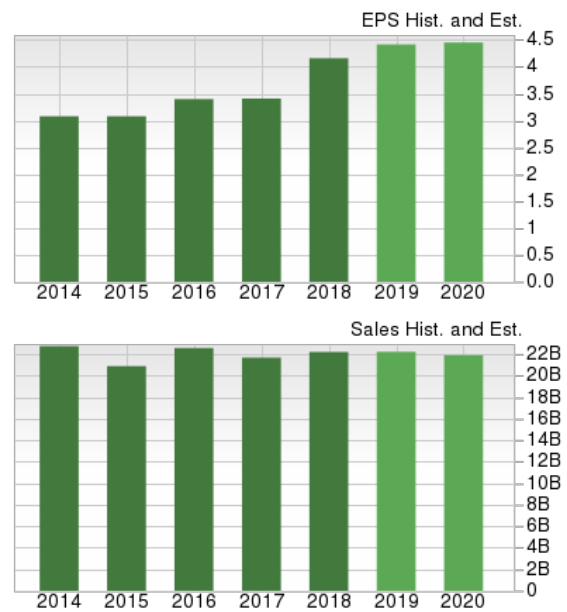
Prior to Apr 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. 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 2018 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. Going forward, its strong fundamentals and favorable earnings guidance are likely to support the shares.
- ▲ **Favorable 2019 Guidance:** The company expects 2019 earnings per share within \$4.35-\$4.45, up from the prior guidance of \$4.10-\$4.30. Share repurchase is projected in the range of \$1.3-\$1.7 billion, up from \$1.3 billion bought back in 2018. This favorable guidance instills investors' confidence in the company.
- ▲ **Strong U.S Segment:** Aflac U.S. continues to perform strongly as evident from a revenue CAGR of 2.8% from 2008-2018. The same was up 2.1% in the first half of 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. In 2019, the company expects sales to remain flat to down, and growth of 1-2% in earned premium.
Recently, the company completed the acquisition of Argus Dental & Vision. Argus is a high-quality respected provider of turnkey administrative services supporting Medicare Advantage and Medicaid Network Dental and Vision products on behalf of large health care providers. This is a very important strategic move for Aflac U.S. and it provides a platform to build Aflac's network dental and vision products.
- ▲ **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 marks, the 37th consecutive dividend hike. For 2019, the company expects repurchasing shares in the range of \$1.3 million to \$1.7 billion, compared with \$1.3 million shares repurchased in 2018.

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:** We expect total sales in Japan to remain under pressure in 2019, due to compliance issues related to its strategic partner Japan Post, which accounted nearly 25% of third sector sales in 2018. In view of the allegations of agent misconduct (relating to double charging its customers), the company might also lower sales target per agent and improve sales practices. Thus, initiatives to be taken to rectify the glitch might dampen sales for 2019. Management expects annual sales for 2019 to witness mid-teens decline in the third sector and first sector product sales.
- ▼ **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 1.4% in the first nine months of 2019. We might, therefore see a pressure on margins.

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

Last Earnings Report

Aflac's Q3 Earnings and Revenues Surpass Estimates

Aflac Inc.'s earnings per share of \$1.16 beat the Zacks Consensus Estimate by 8.4% and increased 12.6% year over year.

Total revenues in the quarter declined 0.7% year over year to \$5.5 billion and missed the Zacks Consensus Estimate by 0.5%.

Further, total acquisition and operating expenses inched up 3.1% year over year to \$1.47 billion.

Quarter Ending 09/2019

Report Date	Oct 24, 2019
Sales Surprise	-0.51%
EPS Surprise	8.41%
Quarterly EPS	1.16
Annual EPS (TTM)	4.43

Strong Segmental Results

Aflac Japan

Total revenues increased 3.6% year over year to \$3.9 billion, led by a 2.6% increase in premium income to \$3.2 billion, and 8.7% rise in net investment income to \$659 million. Pre-tax operating earnings increased 10.8% from the prior-year quarter to \$838 million.

Aflac United States

Total revenues increased 0.9% year over year to \$1.6 billion, led by a 1.3% increase in premium income to \$1.4 billion, partly offset by 2.1% decline in net investment income to \$183 million. Pre-tax operating earnings from the U.S. segment were \$335 million, up 0.3% year over year.

Share Repurchase Update

The company purchased 5.9 million shares worth \$310 million during the third quarter.

Solid Financial Position

Total investments and cash as of Sep 30, 2019 were \$139.5 billion, up 12.3% year over year.

At the end of the third quarter of 2019, total assets were \$154.1 billion, up 11.7% year over year.

Shareholders' equity (excluding AOCI) was \$22.2 billion, as of Sep 30, 2019, up 4.2% year over year.

2019 Guidance

The company expects 2019 earnings per share within \$4.35-\$4.45, up from the prior guidance of \$4.10-\$4.30.

Aflac anticipates that in its Japan business, annual sales for 2019 would witness mid-teens decline in the third sector and first sector product sales, with earned premium growth in the range of 1-2%.

In its U.S. segment, the company expects sales to remain flat to down, and growth of 1-2% in earned premium.

The company anticipates \$1.3-\$1.7 billion of share buyback in 2019.

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 up 10% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 5.22% and 8.48%, respectively.

The S&P 500 index is up 22.14% in the past year.

The stock is currently trading at 11.6X forward 12-month price to earnings, which compares to 10.06X for the Zacks sub-industry, 14.32X for the Zacks sector and 18.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.44X and as low as 8.74X, with a 5-year median of 11.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 12.30X 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	11.6	10.06	14.32	18.62
	5-Year High	13.44	13.13	16.21	19.34
	5-Year Low	8.74	8.78	12.01	15.18
	5-Year Median	11.12	10.35	13.98	17.45
P/S F12M	Current	1.74	1.38	6.53	3.46
	5-Year High	1.94	1.54	6.61	3.46
	5-Year Low	1.12	1.05	5.2	2.54
	5-Year Median	1.45	1.31	6.04	3
P/B TTM	Current	1.29	1.19	2.77	4.43
	5-Year High	1.64	1.6	2.89	4.55
	5-Year Low	1.23	1.1	1.83	2.85
	5-Year Median	1.44	1.38	2.51	3.62

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AFL Neutral	X Industry	S&P 500	AIG Neutral	CB Neutral	CNA Neutral
VGM Score	B	-	-	A	C	B
Market Cap	38.04 B	1.20 B	23.86 B	43.61 B	68.15 B	12.08 B
# of Analysts	7	3	13	7	8	2
Dividend Yield	2.08%	1.30%	1.81%	2.55%	1.99%	3.15%
Value Score	B	-	-	B	C	B
Cash/Price	0.11	0.11	0.04	0.58	0.06	0.15
EV/EBITDA	7.35	7.71	13.94	7.73	12.36	11.63
PEG Ratio	3.40	1.65	2.00	0.99	1.37	2.30
Price/Book (P/B)	1.29	1.18	3.25	0.65	1.25	1.00
Price/Cash Flow (P/CF)	8.83	9.07	13.46	6.90	12.98	14.14
P/E (F1)	11.65	18.49	18.67	9.89	13.73	11.51
Price/Sales (P/S)	1.74	1.72	2.62	0.86	1.96	1.16
Earnings Yield	8.59%	5.42%	5.35%	10.11%	7.28%	8.70%
Debt/Equity	0.21	0.00	0.72	0.53	0.24	0.22
Cash Flow (\$/share)	5.87	4.55	6.92	7.26	11.58	3.15
Growth Score	D	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	8.79%	9.63%	10.68%	-13.65%	-1.51%	7.67%
Proj. EPS Growth (F1/F0)	0.80%	0.80%	7.51%	10.32%	9.62%	10.48%
Curr. Cash Flow Growth	16.19%	16.18%	13.40%	5.26%	12.66%	-11.69%
Hist. Cash Flow Growth (3-5 yrs)	9.14%	8.51%	8.78%	-10.95%	8.90%	-5.23%
Current Ratio	0.05	0.38	1.22	0.26	0.31	0.23
Debt/Capital	17.47%	0.11%	42.92%	34.33%	19.94%	18.09%
Net Margin	13.96%	11.43%	11.39%	3.56%	10.48%	6.19%
Return on Equity	12.45%	12.20%	17.19%	4.17%	8.60%	7.72%
Sales/Assets	0.15	0.22	0.54	0.10	0.20	0.18
Proj. Sales Growth (F1/F0)	-1.39%	-1.39%	4.09%	1.18%	4.69%	4.41%
Momentum Score	B	-	-	C	F	B
Daily Price Chg	-1.07%	-0.53%	-1.40%	-1.82%	-1.07%	-0.56%
1 Week Price Chg	-1.93%	-0.96%	-1.09%	-3.48%	-1.09%	-2.65%
4 Week Price Chg	-1.73%	-3.82%	-0.25%	-1.71%	-3.17%	0.07%
12 Week Price Chg	-3.03%	-3.85%	3.64%	-8.74%	1.80%	-0.45%
52 Week Price Chg	9.46%	5.17%	18.08%	17.07%	13.93%	-0.89%
20 Day Average Volume	2,748,743	93,836	1,615,215	3,633,559	1,423,529	152,665
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.51%	0.00%
(F1) EPS Est 4 week change	0.15%	0.00%	0.00%	0.21%	-0.49%	0.00%
(F1) EPS Est 12 week change	-1.13%	-0.72%	-0.17%	-1.09%	-1.02%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.91%	0.02%	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	B
Growth Score	D
Momentum Score	B
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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