

American International (AIG)

\$35.21 (As of 06/04/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

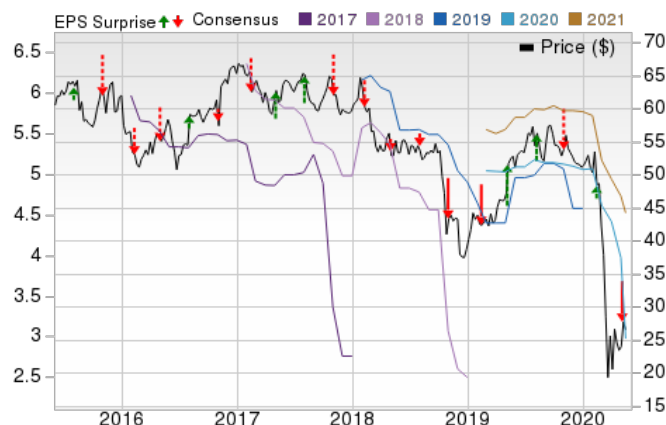
Growth: F

Momentum: D

Summary

AIG has undertaken a number of divestitures over the years which have streamlined its business operations to a great extent. We believe the company's cost-cutting initiatives will result in strict cost control, providing an extra cushion to its operating margins. The company's shares have underperformed its industry in a year. Nevertheless, recent acquisitions have led to business expansion which should drive long term growth. Share repurchases made by AIG will provide support to the bottom line. However, it remains exposed to weather-related catastrophe, which induces volatility to its earnings. High debt levels and low interest coverage ratio increase financial risk. Its trailing ROE, being lower than the industry average, also reflects its inefficiency in utilizing shareholders' funds.

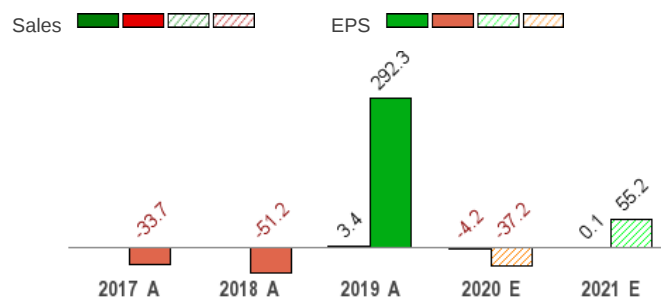
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.66 - \$16.07
20 Day Average Volume (sh)	6,530,814
Market Cap	\$30.3 B
YTD Price Change	-31.4%
Beta	1.42
Dividend / Div Yld	\$1.28 / 3.6%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 36% (163 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-86.8%
Last Sales Surprise	-5.6%
EPS F1 Est- 4 week change	-15.2%
Expected Report Date	08/05/2020
Earnings ESP	-17.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,790 E	11,779 E	11,767 E	11,753 E	47,090 E
2020	10,924 A	11,977 E	11,944 E	11,851 E	47,036 E
2019	12,902 A	12,157 A	11,985 A	12,070 A	49,114 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.13 E	\$1.15 E	\$1.10 E	\$1.14 E	\$4.47 E
2020	\$0.11 A	\$0.80 E	\$0.95 E	\$1.05 E	\$2.88 E
2019	\$1.58 A	\$1.43 A	\$0.56 A	\$1.03 A	\$4.59 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 06/04/2020. The reports text is as of 06/05/2020.

Overview

Founded in 1967 and based in New York, American International Group Inc. is a holding company, which through its subsidiaries, is engaged in a range of global insurance and insurance-related activities. It serves commercial, institutional and individual customers through a property-casualty (P&C) and life insurance and retirement services network. AIG common stock is listed on the New York Stock Exchange and Tokyo Stock Exchange.

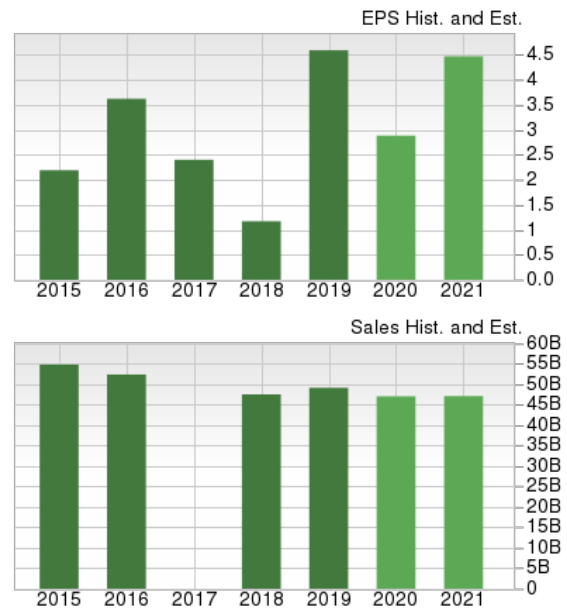
Effective fourth-quarter 2017, AIG is reporting its core insurance operations under four segments:

General Insurance (64% of adjusted revenues in 2019) is a leading provider of insurance products and services for commercial and personal insurance customers. The segment offers a wide range of products to customers through a diverse, multichannel distribution network.

Life and Retirement (33%) consists of a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network.

Other Operations (3%) consists of businesses and items not attributed to the company's General Insurance and Life and Retirement segments or its Legacy Portfolio. It includes AIG Parent; Blackboard; AIG Fuji Life Insurance Company, Ltd. (Fuji Life), which was sold on April 30, 2017; United Guaranty Corporation (United Guaranty), which was sold on December 31, 2016; deferred tax assets related to tax attributes; corporate expenses and intercompany eliminations.

Legacy Portfolio includes Legacy General Insurance Run-Off Lines, Legacy Life and Retirement Run-Off Lines and Legacy Investments. Effective in 2018, the company's newly formed Bermuda domiciled composite reinsurer, DSA Reinsurance Company, Ltd. (DSA Re) will be part of the Legacy Portfolio.



Reasons To Buy:

▲ **Divestitures:** Over the years, AIG has been streamlining its core insurance operations and restructuring businesses by axing operations, thereby enhancing capital allocation and operating leverage. Since 2008, the company has executed over 50 asset sales and divestitures, resulting in proceeds in excess of \$100 billion. These divestitures were made to generate proceeds for repaying the bailout funds to the U.S. government, simplify the company which had huge unrelated operations creating very little synergistic benefits, focus on core operations generating higher return on equity, and use funds for share buyback.

Strategic business de-risking and acquisitions, cost control efforts, accelerated capital deployment will drive growth.

▲ **Acquisitions:** AIG has acquired Ellipse, a specialist provider of group life risk protection in the UK, from Munich Re. The transaction strengthens AIG's position in Life & Retirement businesses. The company recently completed the buyout of Validus Holdings, Ltd. and Glatfelter Insurance Group, which will strengthen its global General Insurance business. The company's CEO, Brian Duperreault, has made a significant shift in its capital utilization and now expects to utilize capital for possible buyouts in the international markets, boosting the company's personal and life lines segments plus investing in the domestic middle market as opposed to its hitherto usage of capital resource for share repurchases. This strategy should lead to long-term growth via business expansion.

▲ **Cost Control Efforts:** One of the company's top financial goals is to generate sustainable operating efficiency gains via reduction in net expenses. Such measures comprised a reduction in headcount, freezing of pension plans and divestiture of underperforming units. The initiatives led to a decline in expenses in 2016, 2017 and in 2018. Notably, general operating expenses or GOE declined 8% year over year in 2019. The company continues to execute initiatives focused on organizational simplification, operational efficiency and business rationalization. We believe that the company's initiatives will result in strict cost control, which will provide an extra cushion to its operating margins.

▲ **Share Buyback to Aid Bottom line:** In February 2019, the company authorized an additional increase to previous repurchase authorization of its common stock of \$1.5 billion, resulting in an aggregate remaining authorization of nearly \$2.0 billion. Share repurchases by the company will support to the bottom line, at a time when top-line growth is tough to achieve.

▲ **Share Price Performance:** Shares of the company have underperformed its industry, in a year's time. Nevertheless, the company's strong fundamentals are likely to support its stock price in the coming quarters.

Reasons To Sell:

- ▼ **Exposure to Catastrophe Loss:** The company's property and casualty business exposes it to weather-related losses. It has been incurring catastrophe losses over the years that have weighed on its underwriting margins. In the first quarter of 2020, the company incurred a catastrophe loss of \$419 million, up 139.5% year over year. The current quarter's catastrophe loss included \$272 million of estimated COVID-19 losses and the rest was related to weather-oriented loss. Given its exposure to weather related losses, the company's earnings will continue to suffer.
- ▼ **Solvency Position:** As of Mar 31, 2020, AIG had total debt of \$25.3 billion and cash balance of \$2.4 billion. Further, debt-to-equity ratio of 40 has remained almost stable sequentially. Its time-interest-earned ratio of 8.3 at the end of the first quarter of 2020 improved from 3.4 in the prior quarter. However, given the difficult operating condition weighing on the company, its high level of debt compared to liquidity position might make it difficult to service its debt.
- ▼ **Low Return on Equity (ROE):** The company's ROE of 4.3% is lower than the industry average of 8.3%. This reflects the company's relative inefficiency in utilizing shareholders' funds.
- ▼ **Revenues Under Pressure:** The company's revenues started to show up in 2019 when the same increased 3.4% year over year after a sustained period of revenue weakness (2003-2018). Revenue growth in 2019 was the result of several strategic initiatives undertaken by the company. However, we believe, the top line will be stressed once again (revenue down 15.3% in the first quarter of 2020) due to COVID-19-led uncertainty in the business and economic environment. The company also withdrew its previously-issued guidance including the one related to adjusted return on equity.

Intense competition, weak revenues, exposure to catastrophe losses and weak solvency position pose risks.

Last Earnings Report

AIG Miss Q1 Earning & Revenue Estimates

American International Group's first-quarter 2020 operating income of 11 cents per share, missed the Zacks Consensus Estimate by 86.75%. In the year-ago quarter, the company reported earnings of \$1.58 per share.

Total revenues of \$10.92 billion were down 15.3% year over year and also missed the Zacks Consensus Estimate by 5.63%, due to lower, premiums and net investment income.

Total net investment income of \$2.5 billion was down 36% year over year

Total benefit expenses of \$11.9 were up 5.2% year over year, due to higher amortization of deferred policy acquisition costs.

The company incurred catastrophe loss of \$419 million, up 139.5% year over year. The current quarter's catastrophe loss included \$272 million of estimated COVID-19 losses and rest were related to weather loss.

Adjusted return on equity was 0.8%, compared with 11.6% in the year-ago quarter.

As of Mar 31, 2020, the insurer's adjusted book value per share (excluding AOCI) was \$60.55, up 3% from Dec 31, 2019 levels.

Strong Segment Results

General Insurance

Net premium written of \$5.9 billion was down 2% year over year, due to a decline in premium in and international business, partly offset by increase in North America premium.

The segment reported underwriting loss of \$87 million compared with underwriting gain of \$179 million in the prior-year quarter. Combined ratio of 101.5 deteriorated 410 basis points, due to higher catastrophe losses.

Life and Retirement

Premium and fees was up just 1% year over year to \$1.95 billion, led by higher contribution from Individual Retirement, Group Retirement, Life Insurance partly offset by lower contribution from Institutional Market

The segment reported adjusted pre-tax income of \$574 million, down 38% year over year, due to lower contribution from Group, Life and Individual sub-segments.

Financial Position (as of Mar 31, 2020)

The company had long-term debt of \$25.3 billion, down 5.2% year over year. Total assets of \$510.5 billion were down 0.5% year over year.

Shareholder equity was \$47 billion, up 98% year over year.

Share Buyback and Dividend Update

The company repurchased shares worth \$500 million. As of Mar 31, 2020, the company has \$1.5 billion remaining under its share buyback authorization.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	-5.63%
EPS Surprise	-86.75%
Quarterly EPS	0.11
Annual EPS (TTM)	3.13

Recent News

AIG's Divestiture of Fortitude Re to Streamline Its Business — Jun 2, 2020

AIG completed the divestiture of a majority stake in its legacy specialist run-off company, Fortitude Group Holdings, LLC (Fortitude RE). The two companies, which have acquired the majority stake of Fortitude Re, are The Carlyle Group (CG) and T&D Holdings. Post the transaction closure, Carlyle is entitled to hold a 71.5% stake in Fortitude Re, which even consists of a 19.9% stake acquired by it in November 2018. The Japanese insurer, namely T&D, will hold a 25% stake and the balance 3.5% will be held by AIG. We believe by selling Fortitude Re, AIG will let go of its legacy liability related to the insurance portfolio, which includes run-off management solutions for long-dated, complex risk policies.

AIG's Unit to Launch an Index Annuity Solution for Retirees — May 11, 2020

AIG's business, AIG Life & Retirement, recently announced collaboration with Annexus. The latter primarily provides innovative retirement solutions across the United States. With Annexus, AIG Life & Retirement will launch an index annuity solution — X5 Advantage. Aimed at catering to the diverse range of retirement needs, the new solution will feature exclusive indices developed by two renowned asset managers PIMCO and Morgan Stanley Investment Management.

Changes in Management — Dec 18, 2019

The company announced the appointment of Peter S. Zaffino as President of AIG, effective Jan 1, 2020. Mr. Zaffino will continue to serve as AIG's Global Chief Operating Officer and Chief Executive Officer, General Insurance. Mr. Duperreault, who previously served as AIG President, will continue to serve as AIG's Chief Executive Officer and remain on AIG's Board of Directors.

Valuation

American International Group's shares are down 31.4% and 34.2% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 20.4% and 17.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.3% and 9.7%, respectively.

The S&P 500 index is down 3.5% in the year-to-date period and up 9.4% in the past year.

The stock is currently trading at 0.5x trailing 12-month book value, which compares to 1.13x for the Zacks sub-industry, 2.4x for the Zacks sector and 4.27x for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.9x and as low as 0.24x, with a 5-year median of 0.75x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 0.53x book value.

The table below shows summary valuation data for AIG

Valuation Multiples - AIG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.5	1.13	2.4	4.27
	5-Year High	0.9	1.98	2.9	4.56
	5-Year Low	0.24	0.85	1.71	2.83
	5-Year Median	0.75	1.48	2.53	3.66
P/S F12M	Current	0.64	0.88	5.8	3.51
	5-Year High	1.74	1.74	6.69	3.51
	5-Year Low	0.33	0.88	4.98	2.53
	5-Year Median	1.13	1.27	6.06	3.02
P/E F12M	Current	9.78	9.03	17.16	22.48
	5-Year High	21.72	12.61	17.16	22.48
	5-Year Low	4.06	6.62	11.57	15.23
	5-Year Median	10.95	10.12	13.96	17.49

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
Chubb Limited (CB)	Neutral	4
CNA Financial Corporation (CNA)	Neutral	3
The Hartford Financial Services Group, Inc. (HIG)	Neutral	4
MetLife, Inc. (MET)	Neutral	4
The Progressive Corporation (PGR)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	4
The Travelers Companies, Inc. (TRV)	Neutral	3

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	AIG	X Industry	S&P 500	MET	PRU	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	C	-	-	A	B	A
Market Cap	30.33 B	3.84 B	22.58 B	35.70 B	25.86 B	29.83 B
# of Analysts	7	2.5	14	5	6	8
Dividend Yield	3.64%	2.28%	1.87%	4.68%	6.72%	2.78%
Value Score	B	-	-	A	A	B
Cash/Price	1.08	0.35	0.06	1.26	2.54	0.17
EV/EBITDA	3.28	4.20	12.93	1.41	-2.74	3.60
PEG Ratio	1.17	1.36	3.06	NA	0.80	2.13
Price/Book (P/B)	0.50	0.88	3.09	0.51	0.42	1.18
Price/Cash Flow (P/CF)	3.37	8.28	12.17	6.70	4.96	3.85
P/E (F1)	12.91	10.91	22.17	7.26	7.18	12.43
Price/Sales (P/S)	0.59	0.83	2.41	0.50	0.45	0.94
Earnings Yield	8.18%	9.06%	4.27%	13.78%	13.93%	8.04%
Debt/Equity	0.58	0.24	0.76	0.21	0.33	0.26
Cash Flow (\$/share)	10.45	3.27	7.01	5.87	13.20	30.61
Growth Score	F	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	-1.48%	9.02%	10.87%	4.04%	5.79%	-4.52%
Proj. EPS Growth (F1/F0)	-37.19%	-6.11%	-10.79%	-11.33%	-21.98%	-1.13%
Curr. Cash Flow Growth	41.46%	7.74%	5.48%	6.34%	2.41%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	-3.88%	1.69%	8.55%	-4.47%	1.57%	-1.19%
Current Ratio	0.27	0.48	1.29	0.16	0.14	0.38
Debt/Capital	36.41%	21.55%	44.75%	17.08%	24.81%	20.65%
Net Margin	8.59%	4.72%	10.59%	12.37%	5.16%	7.61%
Return on Equity	4.31%	6.97%	16.26%	8.85%	7.13%	9.61%
Sales/Assets	0.10	0.21	0.55	0.10	0.07	0.29
Proj. Sales Growth (F1/F0)	-4.23%	0.00%	-2.61%	-4.56%	-5.44%	0.68%
Momentum Score	D	-	-	B	D	A
Daily Price Chg	5.89%	0.51%	-0.08%	3.85%	2.75%	3.08%
1 Week Price Chg	4.05%	4.49%	4.60%	8.01%	8.32%	6.87%
4 Week Price Chg	37.97%	12.86%	12.07%	14.23%	15.41%	23.17%
12 Week Price Chg	37.16%	14.44%	25.17%	39.01%	41.35%	15.48%
52 Week Price Chg	-34.25%	-18.73%	0.34%	-18.69%	-34.45%	-20.81%
20 Day Average Volume	6,530,814	204,435	2,537,324	6,310,705	3,291,842	1,921,826
(F1) EPS Est 1 week change	-0.48%	0.00%	0.00%	0.56%	-0.82%	1.06%
(F1) EPS Est 4 week change	-15.21%	0.00%	-0.08%	-6.52%	-19.70%	1.13%
(F1) EPS Est 12 week change	-37.54%	-20.27%	-16.19%	-11.06%	-25.43%	-8.45%
(Q1) EPS Est Mthly Chg	-19.89%	-5.58%	0.00%	-32.18%	-42.24%	3.71%

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	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.