

American International (AIG)

\$26.54 (As of 04/10/20)

Price Target (6-12 Months): **\$28.00**

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:B

Value: A

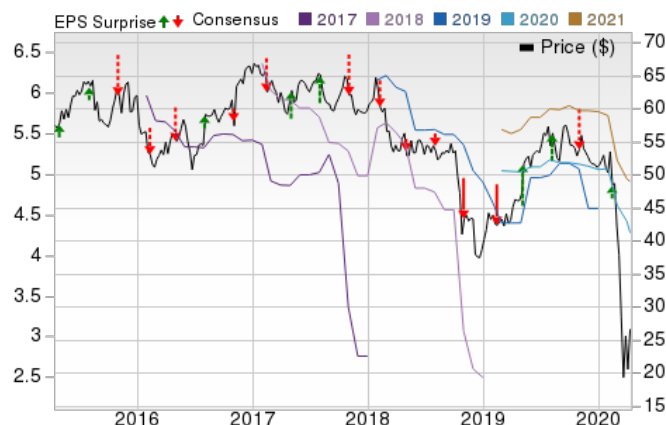
Growth: C

Momentum: D

Summary

A number of divestitures undertaken over the years have streamlined American International's business operations to a great extent, thereby creating synergies. Its cost-control efforts are also impressive. Disciplined use of funds for share buybacks has been accretive to its bottom line. The company's use of reinsurance plan also reduced its capital risk. Recent acquisitions have led to business expansion which should drive long term growth. However, the company 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. The company's shares have underperformed its industry on a year-to-date basis.

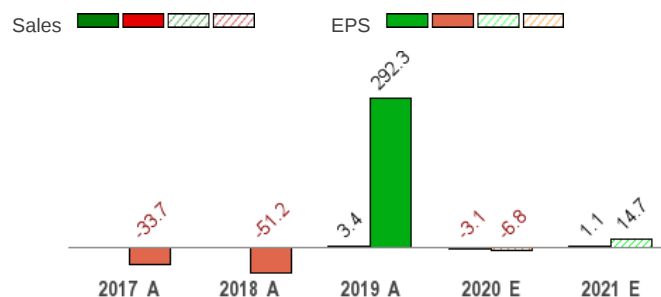
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.66 - \$16.07
20 Day Average Volume (sh)	11,658,105
Market Cap	\$23.2 B
YTD Price Change	-48.3%
Beta	1.53
Dividend / Div Yld	\$1.28 / 4.8%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 20% (50 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	05/04/2020
Earnings ESP	-6.5%
P/E TTM	5.8
P/E F1	6.2
PEG F1	0.6
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,009 E	12,034 E	12,048 E	12,061 E	48,151 E
2020	11,576 E	12,011 E	12,018 E	12,005 E	47,609 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	\$1.23 E	\$1.24 E	\$1.20 E	\$1.25 E	\$4.91 E
2020	\$0.99 E	\$1.13 E	\$1.05 E	\$1.11 E	\$4.28 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 04/10/2020. The reports text is as of 04/13/2020.

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.

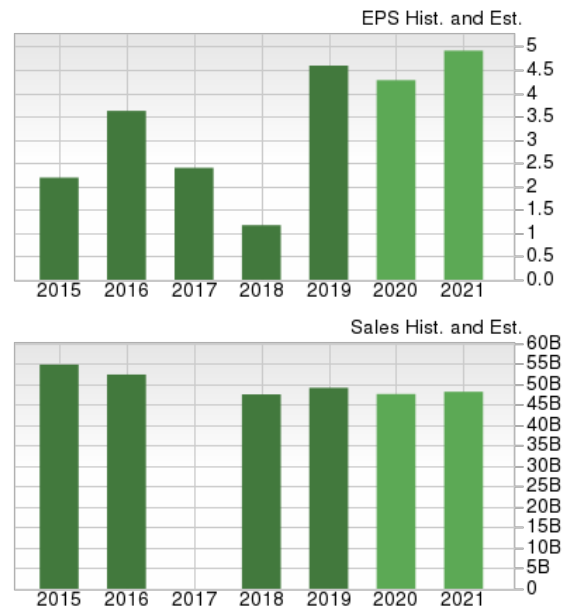
Effective fourth-quarter 2017, AIG is reporting its core insurance operations under four segments:

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.
- ▲ **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.
- ▲ **Revenues Catching Up:** After suffering a decline in revenues from 2003-2018, the same has reversed in 2019 (up 3.4% year over year). This much awaited revenue reversal is a result of several strategic initiatives undertaken by the company, over the past two to three years. We believe, the revenue growth will continue and that the company has emerged out of its troubles.
- ▲ **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. However, the company's strong fundamentals are likely to support its stock price in the coming quarters.

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

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. For 2019, the company sustained cat loss of \$1.27 billion, down nearly 55% year over year. Given its exposure to weather related losses, the company's earnings will continue to suffer.
- ▼ **High Debt Level:** The company's debt has been rising persistently since 2015. Its debt-to-equity ratio of 52.8% is higher than the industry average of 40%. Moreover, interest earned ratio of 4.73 times is lower than the industry average of 8.9 times, which signifies reduced ability of the company to serve interest payments, possessing high financial risk.
- ▼ **Low Return on Equity (ROE):** The company's ROE of 6.3% is lower than the industry average of 9.3%. This reflects the company's relative inefficiency in utilizing shareholders' funds.

Intense competition, low investment income, weak revenues, exposure to catastrophe losses pose risks.

Last Earnings Report

American International Group Beats Q4 Earning Estimates

American International Group posted fourth-quarter 2019 operating income of \$1.03 per share, beating the Zacks Consensus Estimate by a penny. In the year-ago quarter, the company reported loss of 63 cents per share.

Total revenues of \$11.8 billion were down 6.3% year over year and also missed the Zacks Consensus Estimate by 4.2%, due to lower premiums.

Total net investment income of \$3.6 billion was up 28.6% year over year

Total benefit expenses of \$10.8 were down 18.8% year over year, due to lower policy holder benefit and losses.

The company incurred catastrophe loss of \$413 million, down 48.3% year over year.

Adjusted return on equity was 7.3%, compared with negative return on equity of 4.6% in the year-ago quarter.

As of Dec 31, 2019, the insurer's adjusted book value per share (excluding AOCI) was \$58.89, up 7% year over year.

Quarter Ending 12/2019

Report Date	Feb 13, 2020
Sales Surprise	-2.03%
EPS Surprise	0.98%
Quarterly EPS	1.03
Annual EPS (TTM)	4.60

Strong Segment Results

General Insurance

Net premium written of \$5.8 billion was down 9% year over year, due to a decline in premium in North America and international business.

The segment reported underwriting gain of \$12 million compared with underwriting loss of \$1.1 billion in the prior-year quarter. Combined ratio of 99.8% improved 1520 basis points, due to lower catastrophe losses, continued underwriting actions, reinsurance and expense discipline.

Life and Retirement

The segment reported adjusted pre-tax income of \$646 million, down 9.4% year over year, due to lower contribution from Group, Life and Individual

Retirement subsegments.

Total revenues of \$4 billion were down 2% year over year, primarily due to decline in contribution from Institutional Markets, partly offset by revenue growth in Individual retirement, Group retirement and Life Insurance businesses.

Financial Position (as of Dec 31, 2019)

The company had long-term debt of \$25.5 billion, down 2.5% year over year. Total assets of \$525.1 billion were up 6.7% year over year. Shareholder equity was \$51.2 billion, up 7.6% year over year.

Recent News

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.

AIG Extends Tax Asset Protection Plan — Nov 12, 2019

American International Group has announced that its Board of Directors has adopted Amendment No. 3 to AIG's Tax Asset Protection Plan. The Plan, which is designed to protect AIG's substantial tax assets, was scheduled to expire on Dec 14, 2019. Amendment No. 3 to the Plan extends the expiration date of the Plan to Dec 11, 2022 (subject to other earlier termination events as described in the Plan) and makes minor technical changes to the Plan to remove provisions related to the U.S. Treasury's ownership of AIG equity interests that are no longer applicable since the U.S. Treasury no longer holds any equity interests in AIG.

The Carlyle Group and T&D Holdings to Buy Majority Interest in AIG'S Fortitude Re — Nov 25, 2019

American International Group, The Carlyle Group and T&D Holdings have announced that a newly created Carlyle-managed fund, together with T&D, collaborated to purchase 76.6% ownership in Fortitude Group Holdings from AIG.

AIG Enters Partnership With FIDx — Nov 6, 2019

American International Group, a division of AIG Life & Retirement, has reached an agreement with FIDx, the first product-agnostic platform to integrate annuities with investment products. Financial advisors using the Envestnet Insurance Exchange platform will now be able to include AIG annuities as part of their clients' retirement portfolios.

Valuation

American International Group's shares are down 52.2% and 46.2% 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 28.6% and 23.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.1% and 17.6%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 0.35x trailing 12-month book value, which compares to 1.18x for the Zacks sub-industry, 2.13x for the Zacks sector and 3.69x for the S&P 500 index.

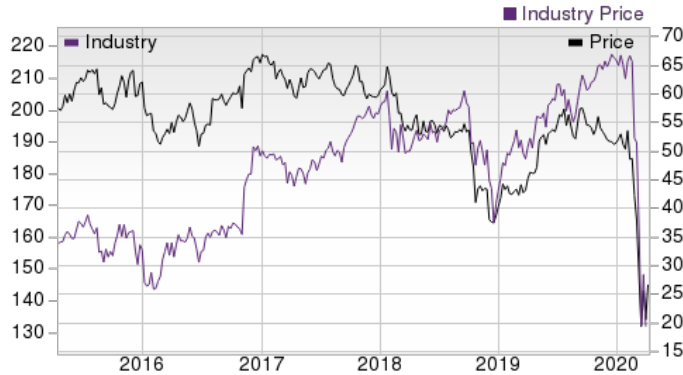
Over the past five years, the stock has traded as high as 0.9x and as low as 0.24x, with a 5-year median of 0.75x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 0.37x book value.

The table below shows summary valuation data for AIG

Valuation Multiples - AIG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.35	1.18	2.13	3.69
	5-Year High	0.9	1.98	2.89	4.55
	5-Year Low	0.24	0.85	1.69	2.85
	5-Year Median	0.75	1.46	2.51	3.63
P/S F12M	Current	0.49	1.09	4.93	3.57
	5-Year High	1.74	1.74	6.65	3.57
	5-Year Low	0.33	0.89	4.95	2.54
	5-Year Median	1.14	1.33	6.04	3
P/E F12M	Current	5.96	7.25	13.3	18.11
	5-Year High	21.72	12.61	16.19	19.34
	5-Year Low	4.06	6.62	11.23	15.17
	5-Year Median	11.08	10.16	13.98	17.44

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 253)



Top Peers

Aflac Incorporated (AFL)	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
Prudential Financial, Inc. (PRU)	Neutral
The Travelers Companies, Inc. (TRV)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	AIG Neutral	X Industry	S&P 500	MET Neutral	PRU Neutral	TRV Neutral
VGM Score	B	-	-	A	B	A
Market Cap	23.18 B	3.37 B	19.66 B	32.48 B	23.25 B	27.99 B
# of Analysts	6	2.5	13	5	6	9
Dividend Yield	4.82%	2.94%	2.18%	4.96%	7.50%	2.99%
Value Score	A	-	-	A	B	B
Cash/Price	1.27	0.34	0.06	1.32	2.38	0.23
EV/EBITDA	3.10	3.82	11.72	2.08	-0.27	3.29
PEG Ratio	0.54	1.09	2.04	1.38	0.56	1.35
Price/Book (P/B)	0.34	0.77	2.66	0.49	0.37	1.09
Price/Cash Flow (P/CF)	2.54	7.19	10.44	6.04	4.45	3.59
P/E (F1)	5.94	7.77	17.51	5.97	5.00	10.77
Price/Sales (P/S)	0.47	0.75	2.12	0.47	0.40	0.89
Earnings Yield	16.13%	12.63%	5.65%	16.75%	19.98%	9.29%
Debt/Equity	0.53	0.20	0.70	0.22	0.29	0.25
Cash Flow (\$/share)	10.45	3.27	7.01	5.87	13.20	30.61
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-6.76%	6.75%	10.92%	2.11%	5.99%	-5.01%
Proj. EPS Growth (F1/F0)	-6.79%	3.71%	-1.14%	-2.85%	0.36%	6.14%
Curr. Cash Flow Growth	41.46%	9.34%	5.93%	6.34%	2.41%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	-3.88%	1.53%	8.55%	-4.47%	1.57%	-1.19%
Current Ratio	0.24	0.42	1.24	0.14	0.10	0.39
Debt/Capital	34.40%	16.90%	42.36%	17.89%	22.64%	20.18%
Net Margin	6.73%	7.17%	11.64%	8.39%	7.20%	8.30%
Return on Equity	6.28%	6.51%	16.74%	9.14%	7.81%	10.03%
Sales/Assets	0.10	0.23	0.54	0.10	0.07	0.29
Proj. Sales Growth (F1/F0)	-3.06%	0.00%	0.45%	-0.45%	-0.36%	3.89%
Momentum Score	D	-	-	D	F	D
Daily Price Chg	9.99%	4.72%	2.48%	5.95%	6.69%	4.57%
1 Week Price Chg	-19.80%	-6.72%	-4.40%	-10.20%	-13.10%	-6.06%
4 Week Price Chg	3.39%	8.74%	11.26%	25.30%	26.75%	7.40%
12 Week Price Chg	-49.31%	-26.65%	-20.02%	-32.07%	-38.46%	-20.97%
52 Week Price Chg	-41.94%	-19.84%	-11.31%	-21.69%	-41.04%	-19.48%
20 Day Average Volume	11,658,105	256,230	3,931,994	9,613,730	5,425,576	3,427,112
(F1) EPS Est 1 week change	-1.23%	0.00%	-0.12%	-0.28%	-1.79%	-0.23%
(F1) EPS Est 4 week change	-7.31%	-1.97%	-5.78%	-2.24%	-3.68%	-1.73%
(F1) EPS Est 12 week change	-15.70%	-4.19%	-7.64%	-2.88%	-5.62%	-6.04%
(Q1) EPS Est Mthly Chg	-3.43%	-2.04%	-10.13%	-3.39%	-6.11%	-3.68%

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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