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Jul 21, 2020

American International (AIG)

$31.41 (As of 07/20/20)

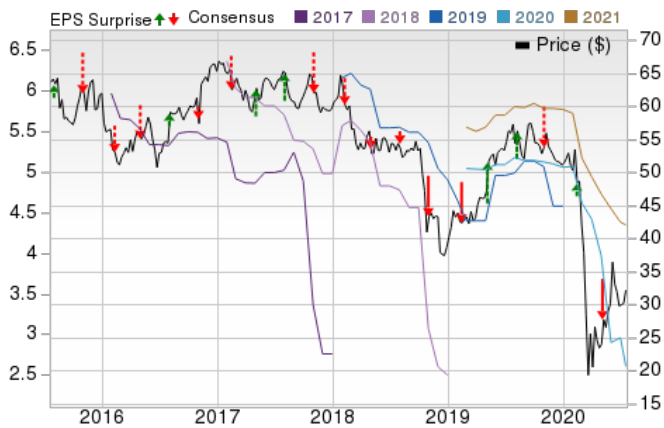
Price Target (6-12 Months): **$27.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/20/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: D	Momentum: F

Summary

Shares of AIG have underperformed its industry in a year. It remains exposed to weather-related catastrophe, which induces volatility to its earnings. High debt levels and low interest coverage ratio increase financial risk. The top line is expected to be under pressure again due to COVID-19-led uncertainty in the business and economic environment. Lower ROE also reflects its inefficiency in utilizing shareholders' funds. Nevertheless, the company has undertaken a number of divestitures over the years which have streamlined its business operations to a great extent. We believe cost-cutting initiatives will result in strict cost control. It intends to utilize capital for investing in domestic middle market and tapping buyout opportunities in the international markets. Share repurchases made by AIG will provide support to the bottom line.

Price, Consensus & Surprise



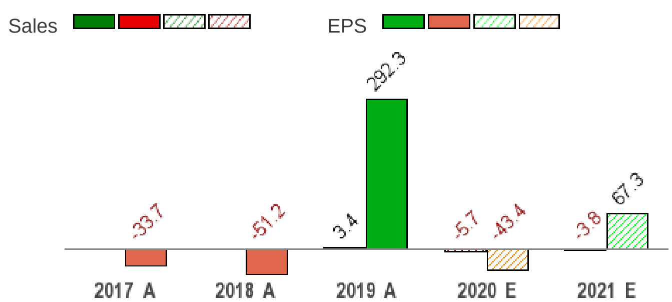
Data Overview

52 Week High-Low	**$58.66 - $16.07**
20 Day Average Volume (sh)	**5,906,788**
Market Cap	**$27.1 B**
YTD Price Change	**-38.8%**
Beta	**1.46**
Dividend / Div Yld	**$1.28 / 4.1%**
Industry	**Insurance - Multi line**
Zacks Industry Rank	**Bottom 41% (148 out of 252)**

Last EPS Surprise	**-86.8%**
Last Sales Surprise	**-5.6%**
EPS F1 Est- 4 week change	**-12.0%**
Expected Report Date	**08/03/2020**
Earnings ESP	**-10.3%**

P/E TTM	**10.0**
P/E F1	**12.1**
PEG F1	**1.1**
P/S TTM	**0.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	11,221 E	11,125 E	11,106 E	11,085 E	44,537 E
2020	11,265 A	11,895 E	11,700 E	11,445 E	46,305 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	$1.08 E	$1.10 E	$1.03 E	$1.08 E	$4.35 E
2020	$0.11 A	$0.67 E	$0.86 E	$0.95 E	$2.60 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 07/20/2020. The reports text is as of 07/21/2020.

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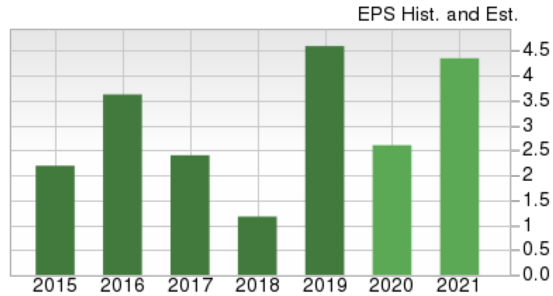
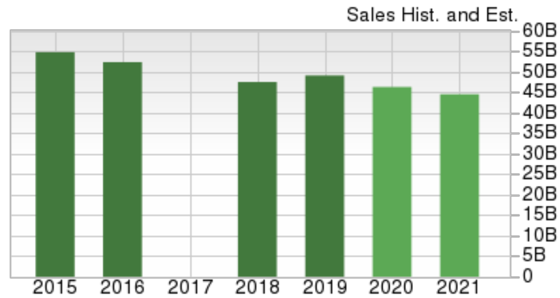
Overview

American International Group is a leading global insurance organization. Building on its long history, it provides a wide range of property casualty insurance, life insurance, retirement solutions, and other financial services to customers in more than 80 countries and jurisdictions.

These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange.

AIG is reporting its core insurance operations under four segments:
General Insurance (64% of adjusted revenues in 2019) provides insurance products and services for commercial and personal insurance customers, through a diversified, multichannel distribution network. It includes the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe S.A.; American International Group UK Ltd.; Validus Reinsurance, Ltd.; Talbot Holdings Ltd.; Western World Insurance Group, Inc. and Glatfelter Insurance Group (Glatfelter).





Life and Retirement (33%) consist of a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network. It includes the following major operating companies: American General Life Insurance Company (American General Life); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); Laya Healthcare Limited and AIG Life Limited.

Other Operations (3%) it includes AIG Parent; Blackboard; 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 Sell:

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

- **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.

- **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. Moreover, headwinds will keep the stock under pressure going forward.

Risks

- **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. Recently, the company completed the divestiture of a majority stake in its legacy specialist run-off company, Fortitude RE. We believe by selling Fortitude Re, AIG will let go of its legacy liability related to the insurance portfolio that includes run-off management solutions for long-dated, complex risk policies. These were non-core businesses for AIG, with lower return and high-risk characteristics, which could potentially harm its performance in the days ahead. Divesting these businesses will allow the company to streamline operations and focus on high growth areas.

- **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.

Last Earnings Report

AIG Miss Q1 Earning & Revenue Estimates

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

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.

Recent News

AIG Inks Deal to Intensify Focus on High Net Worth Clients — Jun 29, 2020

AIG teamed up with Safeco Insurance and Heritage Insurance Holdings, Inc. Through the deal, AIG intends to benefit agents of AIG Private Client Group (PCG) — a unit of AIG's member companies. Both Safeco Insurance and Heritage will strive to efficiently transition certain parts of AIG's personal insurance business in the form of improved product offerings, which in turn, will benefit the respective upper middle market agents and customers. We believe the latest move by AIG highlights its constant efforts to build stronger relationships with high net worth clients and distribution partners.

AIG Introduces an Index Annuity Amid Present Volatility — Jun 10, 2020

AIG's business, AIG Life & Retirement, recently rolled out an index annuity —AQR DynamiQ Allocation Index. This annuity has been conceived by AQR Indices, which is a subsidiary of AQR Capital Management. Further, the index annuity can be accessed only in the Power Protector Series of Index Annuities that is furnished by American General Life Insurance Company. AQR DynamiQ Allocation Index intends to create customized portfolios by expanding across multiple asset classes and geographic regions.Being the first index annuity designed by AQR, it also aims to generate higher consistent returns and strong risk management abilities.

AIG &Savi'sTool to Lessen Financial Woes of Public Sector — Jun 9, 2020

AIG's subsidiary, AIG Retirement Services, collaborated with Savi for offering a technology solution to the tax-exempt and public sector employers of the United States. By virtue of this digital solution, Savi, which is a social impact tech firm, gives sound guidance about the Public Service Loan Forgiveness program. Hence, Savi's digital solution will guide public service employees while applying for student loan forgiveness. AIG will be working closely with Savi to offer financial security to the public service employees.

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.

Valuation

American International Group's shares are down 38.8% and 43.8% 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 24.3% and 18.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.8% and 13.6%, respectively.

The S&P 500 index is up 0.3% in the year-to-date period and up 8.7% in the past year.

The stock is currently trading at 0.44x trailing 12-month book value, which compares to 1.06x for the Zacks sub-industry, 2.37x for the Zacks sector and 4.41x 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 0.74x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $27 price target reflects 0.38x 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	0.44	1.06	2.37	4.41
	5-Year High	0.9	1.98	2.91	4.56
	5-Year Low	0.24	0.85	1.72	2.83
	5-Year Median	0.74	1.48	2.53	3.71
P/S F12M	Current	0.6	0.81	6.04	3.58
	5-Year High	1.74	1.74	6.66	3.58
	5-Year Low	0.33	0.81	4.96	2.53
	5-Year Median	1.12	1.26	6.06	3.02
P/E F12M	Current	8.81	8.38	16.38	22.83
	5-Year High	21.72	12.61	16.38	22.83
	5-Year Low	4.06	6.62	11.59	15.25
	5-Year Median	10.85	9.99	14.16	17.52

As of 07/20/2020

Industry Analysis **Zacks Industry Rank:** Bottom 41% (148 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Aegon NV **(AEG)**	Neutral	2
Aflac Incorporated **(AFL)**	Neutral	4
Ageas SA **(AGESY)**	Neutral	2
MetLife, Inc. **(MET)**	Neutral	3
Prudential Financial, Inc. **(PRU)**	Neutral	3
Swiss Re Ltd. **(SSREY)**	Neutral	4
Zurich Insurance Group Ltd. **(ZURVY)**	Neutral	4
The Hartford Financial Services Group, Inc. **(HIG)**	Underperform	3

Industry Comparison Industry: Insurance - Multi Line

	AIG	X Industry	S&P 500	HIG	PRU	SSREY
			Industry Peers			
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	D	-	-	C	A	D
Market Cap	27.05 B	3.75 B	22.29 B	14.71 B	24.89 B	26.55 B
# of Analysts	6	3	14	5	5	2
Dividend Yield	4.08%	2.44%	1.85%	3.16%	6.98%	6.09%
Value Score	B	-	-	B	A	A
Cash/Price	1.01	0.36	0.06	0.19	2.42	0.49
EV/EBITDA	3.00	4.07	13.06	5.09	-2.91	11.65
PEG Ratio	1.10	1.21	2.98	1.21	0.76	NA
Price/Book (P/B)	0.45	0.80	3.12	0.99	0.41	0.88
Price/Cash Flow (P/CF)	3.01	7.40	12.03	5.92	4.78	21.70
P/E (F1)	12.08	10.58	22.15	8.45	6.84	45.55
Price/Sales (P/S)	0.52	0.74	2.35	0.71	0.43	NA
Earnings Yield	8.28%	9.13%	4.30%	11.83%	14.61%	2.17%
Debt/Equity	0.58	0.22	0.75	0.29	0.33	0.33
Cash Flow ($/share)	10.45	3.27	6.94	6.94	13.20	0.93
Growth Score	D	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	-1.48%	9.41%	10.82%	8.64%	5.79%	NA
Proj. EPS Growth (F1/F0)	-43.32%	-9.18%	-9.08%	-13.91%	-21.23%	-25.83%
Curr. Cash Flow Growth	41.46%	7.19%	5.51%	20.19%	2.41%	68.22%
Hist. Cash Flow Growth (3-5 yrs)	-3.88%	1.69%	8.55%	2.69%	1.57%	-20.40%
Current Ratio	0.27	0.48	1.30	0.29	0.14	0.31
Debt/Capital	36.41%	20.90%	44.41%	22.17%	24.81%	24.62%
Net Margin	8.59%	5.09%	10.54%	8.33%	5.16%	NA
Return on Equity	4.31%	7.05%	15.74%	13.25%	7.13%	NA
Sales/Assets	0.10	0.20	0.54	0.30	0.07	NA
Proj. Sales Growth (F1/F0)	-5.72%	0.00%	-2.36%	-35.64%	-6.96%	-21.23%
Momentum Score	F	-	-	A	B	D
Daily Price Chg	-2.21%	-0.49%	-0.77%	-2.05%	-1.75%	0.40%
1 Week Price Chg	6.71%	2.27%	3.82%	12.14%	5.95%	1.31%
4 Week Price Chg	-1.20%	0.98%	2.71%	5.01%	0.77%	5.99%
12 Week Price Chg	29.90%	10.00%	9.79%	8.05%	6.34%	12.67%
52 Week Price Chg	-43.79%	-18.43%	-3.79%	-27.96%	-37.47%	-17.23%
20 Day Average Volume	5,906,788	114,293	2,095,914	2,095,914	2,797,816	79,028
(F1) EPS Est 1 week change	-6.30%	0.00%	0.00%	5.83%	0.11%	0.00%
(F1) EPS Est 4 week change	-11.96%	0.00%	0.09%	5.05%	0.15%	-29.92%
(F1) EPS Est 12 week change	-34.44%	-7.02%	-4.60%	-6.50%	-19.45%	-60.62%
(Q1) EPS Est Mthly Chg	-6.33%	0.00%	0.00%	1.86%	-1.37%	NA

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	F
VGM Score	D

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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