

American International (AIG)

\$28.27 (As of 08/21/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

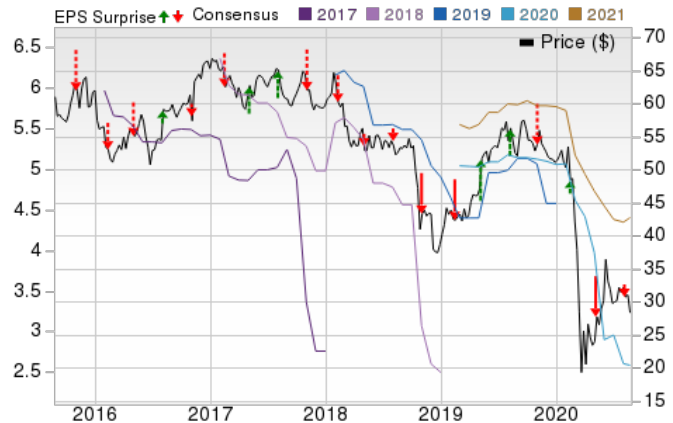
Growth: B

Momentum: C

Summary

American International's earnings of 66 cents per share missed the Zacks Consensus Estimate by 1.5%. The bottom line also plunged 53.8% year over year, primarily due to higher catastrophe losses incurred on account of COVID-19, lower revenues and elevated costs. Shares of AIG have also underperformed its industry in a year. Further, it remains exposed to weather woes, which render volatility to its earnings. High-debt levels and low interest coverage ratio increase financial risks too. The top line is expected to be under pressure again due to pandemic-led uncertainty in its business and economy. Lower ROE also reflects its inefficiency in utilizing shareholders' funds. Nevertheless, the company undertook a number of divestitures over the years, which streamlined its business operations.

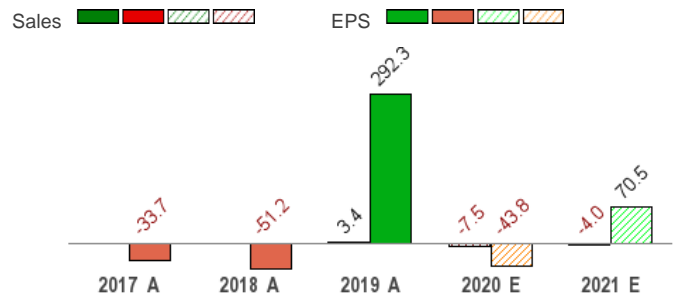
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.66 - \$16.07
20 Day Average Volume (sh)	6,773,497
Market Cap	\$24.4 B
YTD Price Change	-44.9%
Beta	1.44
Dividend / Div Yld	\$1.28 / 4.5%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 48% (121 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	NA
Earnings ESP	0.1%
P/E TTM	12.0
P/E F1	11.0
PEG F1	1.0
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,934 E	10,863 E	10,911 E	10,911 E	43,620 E
2020	11,265 A	11,728 A	11,472 E	11,151 E	45,426 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	\$1.11 E	\$1.02 E	\$1.07 E	\$4.40 E
2020	\$0.11 A	\$0.66 A	\$0.85 E	\$0.93 E	\$2.58 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 08/21/2020. The reports text is as of 08/24/2020.

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.

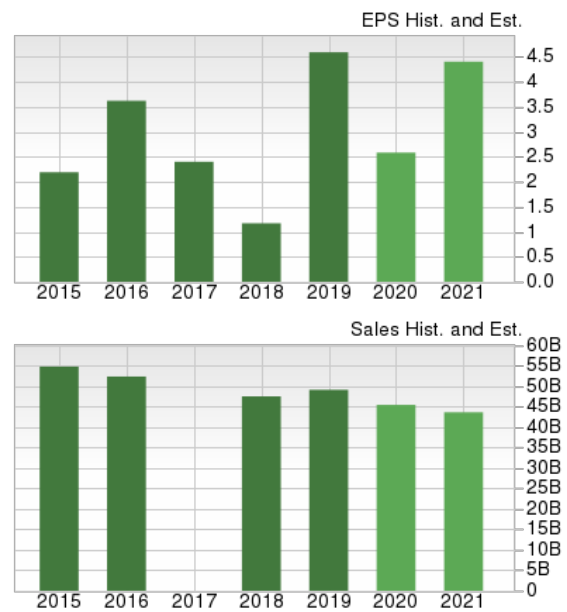
AIG is reporting its core insurance operations under four segments:

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:

- ▼ **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 half of 2020, the company incurred huge catastrophe loss which also included COVID-19 losses which weighed on its operating margins. Given its exposure to weather related losses, the company's earnings will continue to suffer.
- ▼ **Solvency Position:** As of Jun 30, 2020, AIG had total debt of \$39.3 billion and cash balance of \$30.2 billion. Further, debt-to-equity ratio of 63 is higher than the industry's average of 40.3. Its time-interest-earned ratio is very low compared with the industry. Also 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 4.6% declined 580 basis points year over year and 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 has been under pressure since past several years. The same was down 9.6% year over year in the first half of 2020. We believe, the top line will be stressed once again 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.
- ▼ **Low Interest Rates a Headwind:** Net investment income declined 23% year over year in the first six months of 2020. Given that the interest rates are expected to remain at low levels for now, we expect investment income to remain under pressure. The low interest rate environment affects sales of interest rate sensitive products, such as annuities. Additionally, persistently low interest rates may result in higher pension expense due to the impact of discounting projected benefit cash flows.
- ▼ **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.

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

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. The sale of Fortitude Re improved AIG's risk profile and reduced its exposure to long-tail runoff liabilities and a related interest rate risk. 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 buyout of Validus Holdings, Ltd. and Glatfelter Insurance Group, also strengthened 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:** The company undertook a transformative program named AIG 200, which is a global, multi-year initiative to achieve transformational change and \$1 billion of GOE savings. This initiative, costing the company \$1.3 billion, is aimed at organizational simplification, operational efficiency and business rationalization. The company remains on track to achieve \$300 million in exit run rate savings for 2020 and \$1 billion in overall run rate savings by the end of 2022. We believe, the company's initiatives will result in operational efficiency and therefore will provide an extra cushion to its operating margins.
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Last Earnings Report

AIG Miss Earnings Estimates in Q2

American International Group Inc.'s second-quarter 2020 operating earnings of 66 cents per share missed the Zacks Consensus Estimate by 1.5%. The bottom line also declined 53.8% year over year, primarily due to higher catastrophe losses incurred on account of the COVID-19 pandemic, lower revenues and elevated costs.

Total revenues of \$11.7 billion declined 3.5% year over year. The top line also missed the Zacks Consensus Estimate by 1.4% owing to reduced premiums and softer net investment income.

Total net investment income of \$3.4 billion plunged 10.1% year over year.

Total benefit, losses and expenses of \$19.1 billion escalated 77.7% year over year due to higher policyholder benefits and losses incurred, and interest expense.

The company incurred catastrophe losses, net of reinsurance of \$674 million, which soared 287.4% year over year. The reported quarter's catastrophe losses include \$458 million of estimated COVID-19 losses, \$126 million due to civil unrest and the balance \$90 million was related to weather-related loss.

Adjusted return on equity was 4.6% compared with 10.4% in the year-ago quarter.

As of Jun 30, 2020, the insurer's adjusted book value per share (excluding AOCI) was \$55.90, down 5.1% from the level as of Dec 31, 2019.

Strong Segmental Results

General Insurance

Net premiums written of \$5.5 billion were down 16% year over year due to lower premiums in the company's North American and International business.

The segment reported an underwriting loss of \$343 million against an underwriting income of \$147 million in the prior-year quarter. Combined ratio of 106 deteriorated 820 basis points (bps) due to intensified catastrophe losses.

Life and Retirement

Premium and fees surged 72% year over year to \$2.3 billion, led by solid contribution from Individual Retirement, Life Insurance and Institutional Markets, partly offset by lower contribution from Group Retirement.

The segment reported adjusted pre-tax income of \$881 million, down 16% year over year due to sluggish contribution from Individual Retirement, Group Retirement and Life Insurance sub-segments.

Financial Position

AIG exited the second quarter with cash of \$3.4 billion, up 19.3% from 2019 end. As of Jun 30, 2020, the company had long-term debt of \$29.2 billion, up 14.8% year from 2019-end level.

Total assets of \$569.4 billion increased 8.4% from the level at 2019 end. Shareholder equity was \$62.2 billion, down 5.2% from 2019-end level.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	-1.40%
EPS Surprise	-1.49%
Quarterly EPS	0.66
Annual EPS (TTM)	2.36

Recent News

AIG and Its Subsidiaries Get Rating Actions From AM Best — Aug 20, 2020

Credit rating agency AM Best has affirmed American International Group's Long-Term Issuer Credit Rating of "bbb". Moreover, the credit rating giant has affirmed the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term ICRs of "a" of its property/casualty insurance units (AIG PC). Notably, the outlook of these ratings is stable.

AM Best also downgraded the Long-Term ICR to "a" from "a+" and affirmed the FSR of A (Excellent) for the members of the AIG Life & Retirement Group (AIG L&R). The outlook of the Long-Term ICR is changed to stable from negative while the outlook of FSR remains stable.

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's Tool 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 42.6% and 44.5% 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 25.3% and 17.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.1% and 7.1%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and up 18.3% in the past year.

The stock is currently trading at 0.39x trailing 12-month book value, which compares to 1.16x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.59x 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 \$25 price target reflects 0.33x 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	0.39	1.16	2.47	4.59
	5-Year High	0.9	1.98	2.91	4.59
	5-Year Low	0.24	0.85	1.71	2.83
	5-Year Median	0.74	1.48	2.53	3.75
P/S F12M	Current	0.58	0.98	6	3.47
	5-Year High	1.74	1.74	6.65	3.47
	5-Year Low	0.33	0.88	4.95	2.53
	5-Year Median	1.12	1.27	6.06	3.02
P/E F12M	Current	8.76	8.34	16.35	22.24
	5-Year High	21.72	12.61	16.35	22.24
	5-Year Low	4.06	6.62	11.57	15.23
	5-Year Median	10.92	10.09	13.98	17.49

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 252)



Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	AIG	X Industry	S&P 500	HIG	PRU	SSREY
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	B	-	-	A	C	D
Market Cap	24.35 B	3.41 B	23.62 B	14.27 B	26.63 B	25.54 B
# of Analysts	6	2	14	5	5	2
Dividend Yield	4.53%	2.09%	1.65%	3.26%	6.53%	6.14%
Value Score	B	-	-	A	A	B
Cash/Price	1.13	0.34	0.07	0.26	2.00	0.51
EV/EBITDA	2.90	3.72	13.29	4.58	-1.63	11.16
PEG Ratio	1.03	1.17	3.03	1.17	0.80	NA
Price/Book (P/B)	0.39	0.71	3.11	0.85	0.40	0.88
Price/Cash Flow (P/CF)	2.71	7.05	12.69	5.75	5.11	21.53
P/E (F1)	11.36	9.64	21.51	8.20	7.21	NA
Price/Sales (P/S)	0.50	0.77	2.43	0.69	0.47	NA
Earnings Yield	9.13%	9.84%	4.46%	12.20%	13.87%	-1.44%
Debt/Equity	0.63	0.24	0.76	0.26	0.30	0.33
Cash Flow (\$/share)	10.45	3.45	6.93	6.94	13.20	0.93
Growth Score	B	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	2.87%	10.16%	10.44%	10.45%	5.05%	NA
Proj. EPS Growth (F1/F0)	-43.72%	-7.44%	-5.53%	-13.95%	-20.00%	-147.50%
Curr. Cash Flow Growth	41.46%	7.19%	5.20%	20.19%	2.41%	68.22%
Hist. Cash Flow Growth (3-5 yrs)	-3.88%	1.69%	8.52%	2.69%	1.57%	-20.40%
Current Ratio	0.34	0.47	1.33	0.32	0.13	0.31
Debt/Capital	38.47%	20.31%	44.50%	20.31%	23.26%	24.62%
Net Margin	-9.46%	4.27%	10.13%	8.80%	-0.25%	NA
Return on Equity	3.28%	6.79%	14.67%	12.62%	6.13%	NA
Sales/Assets	0.09	0.20	0.51	0.30	0.06	NA
Proj. Sales Growth (F1/F0)	-7.51%	0.00%	-1.54%	-35.01%	-6.12%	-21.23%
Momentum Score	C	-	-	B	B	F
Daily Price Chg	-2.95%	-0.94%	-0.15%	-1.09%	-1.06%	-0.84%
1 Week Price Chg	1.08%	1.05%	1.09%	0.02%	3.87%	3.23%
4 Week Price Chg	-11.30%	0.00%	1.64%	-6.01%	2.71%	0.80%
12 Week Price Chg	-9.16%	5.12%	6.72%	1.58%	8.99%	15.91%
52 Week Price Chg	-47.40%	-16.59%	1.00%	-33.00%	-17.87%	-20.64%
20 Day Average Volume	6,773,497	143,474	1,873,576	2,022,043	2,415,621	35,074
(F1) EPS Est 1 week change	-0.64%	0.00%	0.00%	0.41%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.70%	0.99%	1.79%	-0.01%	1.69%	-164.05%
(F1) EPS Est 12 week change	-10.82%	1.84%	3.35%	3.89%	1.84%	-144.88%
(Q1) EPS Est Mthly Chg	-0.54%	0.00%	0.42%	-2.06%	0.35%	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	B
Momentum Score	C
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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