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Mar 12, 2020

Assurant Inc.(AIZ)

$108.38 (As of 03/11/20)

Price Target (6-12 Months): **$114.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/15/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: C	

Summary

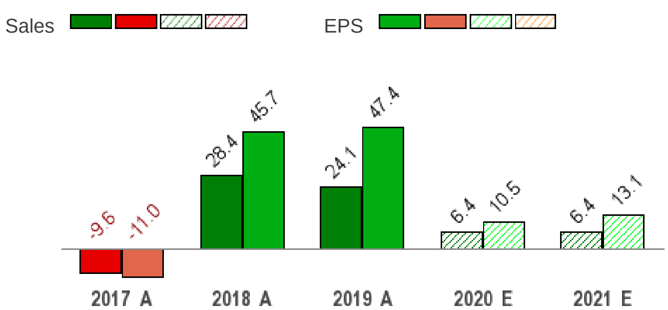
Shares of Assurant have outperformed the industry in a year's time. The company's focus on Specialty Property and Casualty and Lifestyle Protection bodes well for growth. Strong franchise, consistent cash flow generation, robust solutions segment poise it well for growth. It plans to deploy capital, mainly to fund business growth, finance other investments and return capital to shareholders via share buybacks and dividends. However, Global Housing is persistently weighed on by lower mortgage originations as well as the ongoing lender-placed insurance normalization. The company is also exposed to catastrophes, which induce earnings volatility. Also, escalating expenses weigh on margins. Assurant's earnings of $2.25 per share, missed the Zacks Consensus Estimate by 6.6%, but was up 192.2% from the year-ago quarter.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$142.61 - $91.84**
20 Day Average Volume (sh)	**520,597**
Market Cap	**$6.5 B**
YTD Price Change	**-17.3%**
Beta	**0.54**
Dividend / Div Yld	**$2.52 / 2.3%**
Industry	**Insurance - Multi line**
Zacks Industry Rank	**Top 45% (114 out of 253)**
Last EPS Surprise	**-6.6%**
Last Sales Surprise	**4.4%**
EPS F1 Est- 4 week change	**-3.4%**
Expected Report Date	**05/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**12.8**
P/E F1	**11.5**
PEG F1	**NA**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,693 E	2,849 E	2,767 E	2,900 E	11,335 E
2020	2,547 E	2,697 E	2,619 E	2,740 E	10,649 E
2019	2,399 A	2,523 A	2,480 A	2,604 A	10,006 A

EPS Estimates

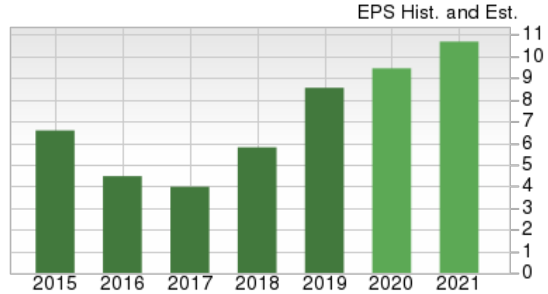
	Q1	Q2	Q3	Q4	Annual*
2021	$2.74 E	$2.90 E	$2.21 E	$2.83 E	$10.69 E
2020	$2.48 E	$2.59 E	$1.93 E	$2.46 E	$9.45 E
2019	$2.21 A	$2.34 A	$1.69 A	$2.25 A	$8.55 A

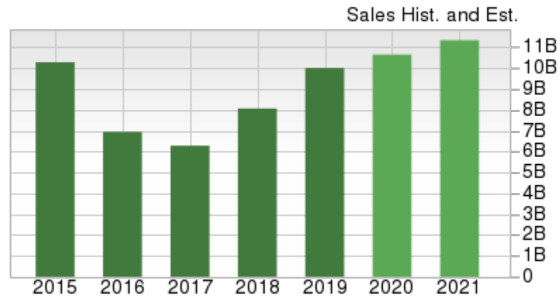
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

Overview

Founded in 1969 and headquartered in New York, Assurant Inc. is a global provider of risk management solutions in the housing and lifestyle markets, protecting where people live and the goods they buy. The company operates in North America, Latin America, Europe and Asia Pacific. Assurant was incorporated as a Delaware corporation in 2004.
The company reports through three reportable segments: **Global Lifestyle, Global Housing and Global Preneed**.





Global Lifestyle segment (58% of 2019 operating earnings)) provides mobile device protection products and related services and extended service products and related services for consumer electronics and appliances (referred to as Connected Living); vehicle protection and related services (referred to as Global Automotive); and credit and other insurance products (referred to as Global Financial Services).

Global Lifestyle operates globally, with about 75% of its revenues from North America, 11% from Latin America, 10% from Europe and 4% from Asia Pacific in 2018.

Global Housing segment (36%) provides lender-placed homeowners insurance, lender-placed manufactured housing insurance, lender-placed flood insurance; and renters insurance and related products (referred to as Multifamily Housing), as well as voluntary manufactured housing and other insurance.

On Aug 1, 2018, Assurant sold its Mortgage Solutions business, which comprised property inspection and preservation, valuation and title services and other property risk management services.

Global Preneed segment (6%) provides pre-funded funeral insurance and annuity products in Canada and the United States. Pre-funded funeral insurance provides whole life insurance or annuity death benefits to fund the costs associated with pre-arranged funerals, which are planned and paid for in advance of death. The pre-funded funeral insurance products are typically structured as whole life insurance policies in the United States and offer limited pay (Preneed) or pay for life (Final Need) options. In Canada, pre-funded funeral insurance products are typically structured as limited pay annuity contracts. Product choices are based on the health and financial situation of the customer and the distribution channel.

Reasons To Buy:

Strong performing Global LIfestyle business, growing Service business, solid capital management should drive growth at the company.

- The company's Global Lifestyle segment has been putting up an impressive performance, reflected by its 'net premium and fee and other income' CAGR of 24.2% from 2016 to 2019. The company has adopted inorganic and organic growth strategies to boost this segment. The acquisition of The Warranty Group in May 2018 strengthened its position as an industry-leading lifestyle provider, having substantial operating synergies in a more predictable and expanded earnings stream. For 2020, the company expects modest growth in Global Lifestyle, driven primarily by Connected Living, and to a lesser extent by Global Automotive. This will be partially offset by continued decline in legacy Global Financial Services and investments to support growth.

- Pre-need is another important business for Assurant Solutions and remains a solid performer. The company remains focused on ramping up the Connected Living platform, deploying innovative products and services and adding new partnerships with leading brands like Comcast, Apple and KDDI in Japan. These initiatives are expected to double the margins in Connected Living to 8% over the long term. The company expects Global Preneed's earnings to decline owing to the one-time accounting adjustment. The company anticipates 13% operating ROE by 2021.

- The company is also focused on growing the fee-based capital-light businesses that presently consist of 52% segmental revenues. Management estimates the contribution to continue growing in double digits over the longer term. The expansion of the fee-based offerings will help the company to achieve the goal of 15% operating ROE by 2020.

- Assurant has a strong capital management policy in place. Traditionally, the company has been utilizing 50% of its free cash flow to repurchase shares. A solid capital position supports effective capital deployment. In November 2019, the board of directors also approved a dividend hike of 5%. However, the company's dividend yield of 2.3% is lower than the industry's average of 7.7%. In 2020, the company plans to deploy capital, mainly to fund business growth, finance other investments and return capital to shareholders via share buybacks and dividends.

- Shares of Assurant have outperformed the industry in the past year. We expect strong segmental performance along with a robust capital position to drive the stock in the near term.

Reasons To Sell:

> Global Housing is witnessing lower mortgage originations and drop in real estate owned volumes and declining placement rates, curbing growth. High debt, rising expenses are other headwinds.

- Revenues at Global Housing have been declining since 2017, which continued through 2019. This decline has been mainly due to decreasing premiums from Lender-placed insurance. With respect to the lender-placed market, placement rates have decreased as the housing market has improved resulting in lower net earned premiums. Placement rates are expected to decline in 2020, indicating the health of the overall housing market, which will further pressurize premiums from this line of business. For 2020, Global Housing earnings, excluding catastrophe losses, are expected to expand across all business lines, partially offset by the previously disclosed loss of loans from a financially insolvent client. Though the company will continue to implement expense management efforts to mitigate the impact on its bottom line, pressure from top line will remain.

- Assurant has been experiencing an increase in expenses mainly on account of a rise in policyholder benefits, selling, underwriting, general and administrative expenses plus interest expense and loss on extinguishment of debt. In 2019, expenses grew by 23.4% year over year. An increase in expenses weighs on the company's margins.

- The company's debt-to-capital ratio has gone up from 24% in 2014 to 36% in 2019. Its times interest earned ratio, which measures the company's ability to pay interest, is 6 compared with the industry's average of 8.9. The company's increased debt level and reduced interest servicing capability raise financial risk.

Last Earnings Report

Assurant Earnings Miss Estimates in Q4, Surge Y/Y

Quarter Ending	12/2019
Report Date	Feb 11, 2020
Sales Surprise	4.36%
EPS Surprise	-6.64%
Quarterly EPS	2.25
Annual EPS (TTM)	8.49

Assurant, Inc. reported fourth-quarter 2019 net operating income of $2.25 per share, which missed the Zacks Consensus Estimate by 6.6%. However, the bottom line surged 192.2% from the year-ago quarter.

Results gained from lower catastrophes, diminution in the valuation allowance associated with the company's ACA risk corridor program receivables and the elimination of net realized losses on investments.

Total revenues were up 10.7% year over year to $2.6 billion, mainly attributable to higher premiums earned (up 12.4%) and net investment income (up 2.3%). Also, the top line beat the Zacks Consensus Estimate by 4.4%.

Total benefits, loss and expenses escalated 6.7% to $2.4 billion mainly on account of net losses suffered due to the company's decision of divesting its business (Iké), and rise in selling, underwriting, general & administrative expenses.

Segmental Performance

Net earned premiums, fees and others at Global Housing improved 2% year over year to $513.3 million, driven by increased sharing economy offerings and multifamily housing.

The segment reported net operating income of $72.9 million against net operating loss of $12.4 million a year ago.

Net earned premiums, fees and others at Global Lifestyle increased 14% year over year to $1.9 billion. The upside was primarily driven by strong growth in Global Automotive and the expansion of mobile programs that were launched over the last three years.

Net operating income of $97.3 million declined 1% year over year primarily due to planned investments in mobile to drive growth and increased expenses in Global Automotive.

Net earned premiums, fees and others at Global Preneed rose 6% year over year to $51.4 million, primarily owing to growth in prefunded funeral policies as well as prior-period sales of the Final Need product. Net operating income declined 2% year over year to $16.1 million mainly due to reduced investment income from real estate joint venture partnerships and hence lower yields when compared with the prior-year period.

Net operating loss at Corporate & Other was $21.6 million, narrower than the year-ago quarter's $27.5 million, attributable to reduced employee-related expenses and advantage from consolidated tax rate adjustment.

Financial Update

The company exited the fourth quarter with total assets of $44.3 billion, up 7.8% year over year. Debt was $2 billion, which increased marginally year over year.

Stockholders' equity of $5.7 billion at the end of the quarter increased 10.7% year over year.

2020 Guidance

Assurant estimates net operating income (excluding reportable catastrophe loss) to grow between 10% and 14% from the 2019 level, driven by strong performance across all business segments and share buybacks.

Net operating income growth is likely to reflect moderate gains in Global Lifestyle, mainly driven by Connected Living. However, persistent declines in legacy Global Financial Services and continued investments might partially offset net operating income growth.

For Corporate & Other, Assurant expects yearly net operating loss to be around that reported in 2019. Additionally, interest expenses are projected to be $81 million and preferred dividends are anticipated to be $19 million.
Assurant anticipates Global Housing net operating income, excluding catastrophe losses, to grow across all business lines.

Recent News

Assurant Declares Quarterly Dividend – Jan 14, 2020

The board of directors of Assurant declared a quarterly dividend of 63 cents per share. The dividend will be paid out on Mar 16 to shareholders of record as of Feb 24. The board also declared a quarterly dividend $1.6250 per share of 6.50% mandatory convertible preferred stock. The dividend will be paid out on Mar 16 to shareholders of record as of Mar 01.

Valuation

Assurant shares are down nearly 17.3% in the year-to-date period and up 7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 26.3% and 21.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 19.7% and 15.4%, respectively.

The S&P 500 index are down 14.9% in the year-to-date period and 3.5% in the past year.

The stock is currently trading at 1.2x trailing 12-month book value, which compares to 1.1x for the Zacks sub-industry, 2.3x for the Zacks sector and 3.9x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.5x and as low as 0.8X, with a 5-year median of 1.2x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $114 price target reflects 1.2x trailing 12- month book value.

The table below shows summary valuation data for AIZ

Valuation Multiples - AIZ

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.16	1.08	2.34	3.88
	5-Year High	1.52	1.98	2.89	4.56
	5-Year Low	0.8	0.94	1.83	2.85
	5-Year Median	1.18	1.46	2.52	3.63
P/S F12M	Current	0.6	1.22	5.99	3.05
	5-Year High	0.89	1.74	6.64	3.4
	5-Year Low	0.4	0.89	5.39	2.54
	5-Year Median	0.7	1.31	6.04	3.01
P/E F12M	Current	11.18	7.72	12.4	16.58
	5-Year High	27.23	12.61	16.21	19.34
	5-Year Low	9.57	7.72	12.01	15.18
	5-Year Median	12.78	10.21	13.97	17.42

As of 03/11/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (114 out of 253)

Top Peers

First American Financial Corporation **(FAF)**	Outperform
Arch Capital Group Ltd. **(ACGL)**	Neutral
American Financial Group, Inc. **(AFG)**	Neutral
Axis Capital Holdings Limited **(AXS)**	Neutral
Everest Re Group, Ltd. **(RE)**	Neutral
RenaissanceRe Holdings Ltd. **(RNR)**	Neutral
Selective Insurance Group, Inc. **(SIGI)**	Neutral
The Travelers Companies, Inc. **(TRV)**	Neutral

Industry Comparison Industry: Insurance - Multi Line

Industry Peers

	AIZ Neutral	X Industry	S&P 500	AFG Neutral	AXS Neutral	FAF Outperform
VGM Score	C	-	-	A	D	B
Market Cap	6.48 B	3.73 B	19.20 B	7.53 B	4.04 B	6.48 B
# of Analysts	2	2	13	4	3	2
Dividend Yield	2.33%	2.77%	2.31%	2.16%	3.41%	3.06%
Value Score	D	-	-	B	C	C
Cash/Price	0.32	0.26	0.05	0.29	0.34	0.20
EV/EBITDA	8.01	4.41	11.76	4.58	9.88	4.51
PEG Ratio	NA	1.17	1.73	1.43	1.88	NA
Price/Book (P/B)	1.16	0.91	2.64	1.20	0.85	1.46
Price/Cash Flow (P/CF)	10.20	7.41	10.55	7.20	10.77	7.98
P/E (F1)	10.75	8.05	15.66	9.26	9.38	10.76
Price/Sales (P/S)	0.64	0.85	2.06	0.91	0.78	1.05
Earnings Yield	8.72%	12.05%	6.38%	10.80%	10.66%	9.30%
Debt/Equity	0.35	0.21	0.70	0.23	0.41	0.00
Cash Flow ($/share)	10.63	3.58	7.01	11.57	4.47	7.22
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	5.75%	5.87%	10.85%	13.23%	-22.01%	19.36%
Proj. EPS Growth (F1/F0)	10.53%	7.54%	6.02%	4.41%	103.57%	-7.03%
Curr. Cash Flow Growth	55.15%	12.09%	6.09%	7.42%	-8.72%	20.75%
Hist. Cash Flow Growth (3-5 yrs)	2.39%	0.02%	8.52%	12.34%	-11.78%	18.51%
Current Ratio	0.48	0.45	1.24	0.15	0.57	0.81
Debt/Capital	26.10%	17.13%	42.57%	19.03%	26.09%	0.00%
Net Margin	3.75%	7.13%	11.69%	10.89%	6.25%	11.41%
Return on Equity	9.51%	6.93%	16.74%	12.87%	5.39%	15.68%
Sales/Assets	0.23	0.23	0.54	0.12	0.20	0.54
Proj. Sales Growth (F1/F0)	6.42%	0.00%	3.55%	0.00%	1.70%	2.03%
Momentum Score	C	-	-	C	B	C
Daily Price Chg	-4.84%	-5.52%	-5.37%	-4.14%	-7.03%	-4.35%
1 Week Price Chg	-0.75%	-0.39%	-0.67%	0.40%	-1.64%	16.44%
4 Week Price Chg	-20.71%	-23.03%	-20.57%	-26.50%	-25.25%	-7.68%
12 Week Price Chg	-17.69%	-23.17%	-17.57%	-24.76%	-20.10%	-4.60%
52 Week Price Chg	7.01%	-16.64%	-8.21%	-13.46%	-14.85%	14.22%
20 Day Average Volume	520,597	180,669	2,882,511	485,847	581,426	1,118,261
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.37%	0.00%	-0.23%	0.00%	0.00%	5.21%
(F1) EPS Est 12 week change	-3.37%	-1.69%	-0.60%	0.56%	2.12%	2.46%
(Q1) EPS Est Mthly Chg	-2.75%	-0.81%	-0.52%	0.00%	0.00%	7.14%

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	D
Growth Score	C
Momentum Score	C
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

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