

MetLife, Inc. (MET)

\$51.87 (As of 02/06/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 02/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: F

Summary

MetLife's fourth-quarter 2019 operating earnings of \$1.98 per share beat the Zacks Consensus Estimate by 41.4% and surged 46.7% year over year. Earnings gained from a rise in revenues. MetLife's shares have outperformed its industry in a year's time. It has been performing well led by prudent underwriting and expense management. Its efforts to streamline business and focus on core operations are impressive. Acquisitions made by the company will diversify its business and aid inorganic growth. Its disciplined capital deployment is expected to drive long-term growth and create wealth for shareholders. However, its exposure to catastrophe loss remains a concern. Also, the company's net investment income might continue to decline in 2019 due to lower interest rates, which will likely pressurize investment yields.

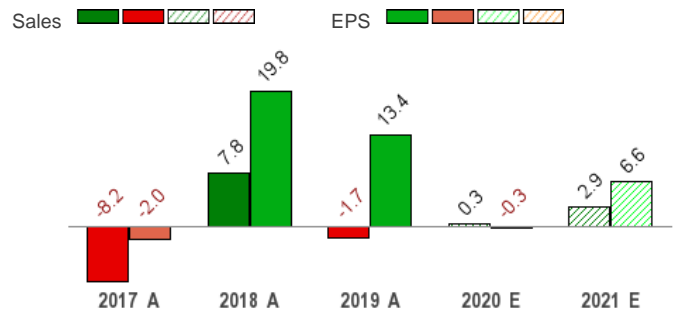
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.76 - \$41.41
20 Day Average Volume (sh)	5,210,963
Market Cap	\$47.7 B
YTD Price Change	1.8%
Beta	1.07
Dividend / Div Yld	\$1.76 / 3.4%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	41.4%
Last Sales Surprise	8.8%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	05/06/2020
Earnings ESP	-0.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					69,125 E
2020					67,190 E
2019	15,448 A	16,454 A	16,918 A	18,154 A	66,974 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$1.61 E	\$1.67 E	\$1.57 E	\$6.49 E
2020	\$1.50 E	\$1.49 E	\$1.56 E	\$1.55 E	\$6.09 E
2019	\$1.48 A	\$1.38 A	\$1.27 A	\$1.98 A	\$6.11 A

*Quarterly figures may not add up to annual.

P/E TTM	8.5
P/E F1	8.5
PEG F1	1.0
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

MetLife, Inc. is an insurance-based global financial services company providing protection and investment products to a range of individual and institutional customers. In addition to offering individual insurance, annuity, and investment products, the company provides group insurance, retirement and savings products, and services.

MetLife is organized into five segments: U.S.; Asia; Latin America; Europe, the Middle East and Africa ("EMEA"); and MetLife Holdings.

On Aug 4, 2017, MetLife, completed the spin-off of Brighthouse Financial, Inc. and its subsidiaries ("Brighthouse") through a distribution of 96,776,670 shares of Brighthouse Financial, Inc. common stock to the MetLife, Inc. common shareholders.

Segments

The U.S. segment (51% of revenues in 2019) offers a broad range of protection products and services aimed at serving the financial needs of customers throughout their lives. The U.S. segment is organized into three businesses: Group Benefits, Retirement and Income Solutions, and Property & Casualty. The major products offered are term life insurance, variable life insurance, universal life insurance, dental insurance and accident & health insurance.

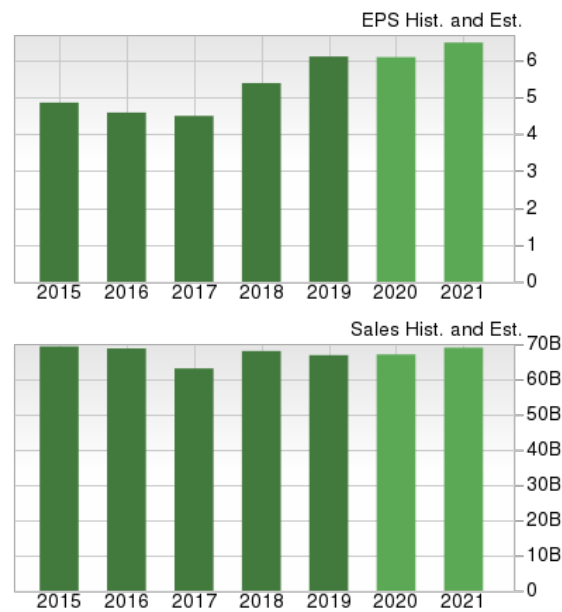
The Asia segment (18%) offers a broad range of products to individuals and corporations, as well as other institutions and their respective employees, which include whole life, term life, variable life, universal life, accident & health insurance, fixed and variable annuities, credit insurance and endowment products.

The Latin America (8%) segment offers products such as life insurance, accident & health insurance, group medical, dental, credit insurance, endowment, and retirement & savings products.

The EMEA segment (5%) has large operations in the Gulf region, Poland, United Kingdom and Turkey and offers a broad range of products including life insurance, accident & health insurance, credit insurance, annuities, endowment, and retirement & savings products.

The MetLife Holdings (18%) segment consists of operations relating to products and businesses no longer actively marketed by the company in the United States.

The company carries a rating of A++ from A.M. Best, AAA from Fitch, Aaa from Moody's and AAA S&P.



Reasons To Buy:

▲ **Business Streamlining:** The company is busy streamlining its business over the years. It continues to focus on the businesses with growth potential and fix or exit businesses that do not create value. One of the most significant steps taken in this direction was the separation of its U.S. Retail business named BrightHouse Financial, completed in 2018. This business required MetLife to hold a huge capital buffer and placed it at a significant competitive disadvantage. The move freed MetLife from a capital-intensive business. It also saved the company from exposure to interest rate and equity market volatility related to the business.

The company's focus on streamlining its business, its strong international operations and a disciplined capital management will drive long term growth.

Recently, the company closed its UK Wealth Management business, which was suffering from low interest rates. The company sold off MetLife Afore, S.A. de C.V., its pension fund management business in Mexico. The company is also in the process of selling its underperforming Hong Kong business. Though the exit of these businesses will dent top-line growth to some extent (in the coming quarters) in the form of fees and premium lost, these strategic steps will transform MetLife into a company with less volatility and more free cash flow in the long term, which should lead to higher return on equity.

▲ **Strong Performance at Segments:** Group benefits revenues and earnings have been increasing over the quarters, driven by favorable underwriting, solid volume growth and higher investment margins. Revenues and earnings were up 4.9% and 24.9%, respectively, in 2019. Expansion into other business lines such as pet insurance, digital wells and health savings accounts will further aid the segment's growth. Its another segment, Retirement and Income Solutions, is also poised to gain from strong pipeline of pension risk transfer deals.

▲ **Cost-Saving Initiatives:** The company has undertaken strategies to control cost and increase efficiency. As a result of its cost saving initiatives, the company has achieved 170 basis point improvement in the annual direct expense ratio from 2015 to 2019. The company is on track to deliver a direct expense ratio of approximately 12.3% for 2020, which equates to an incremental \$100 million of profit margin improvement over its original commitment of \$800. These initiatives should aid margins.

▲ **Disciplined Capital Management:** MetLife has a strong risk-based capital position, sufficient liquidity and a low debt-to-equity ratio (27% compared with the industry's ratio of 42%). The company also manages its capital efficiently. The company's free cash flow ratio rose from 26% in 2012 to average 72% in 2019. This strong free cash flow generation has enabled MetLife to repurchase shares and make dividend payouts. After resuming dividend hikes in 2013, the company has successfully maintained its dividend increase trends for past consecutive seven years. In 2019, the company increased its quarterly dividend by 4.8%, and also approved a \$2 billion share repurchase authorization. The company targets to return 65-75% of earnings over a period of two years (2019-2021).

▲ **Share Price Performance:** In a year's time, the stock has outperformed its industry. Going forward, its strong fundamentals will help the stock to maintain its rally.

Risks

- **Net Investment Income Under Pressure:** The company's net investment income has been declining over the past two years (2017 and 2018). Though the same was up 2.6% in 2019, the low interest rate environment might exert pressure on net investment income because of low investment yields.
 - **Exposure to Catastrophe Loss:** The company's Property and Casualty business exposes it to catastrophe risk. In 2019, the company incurred pre-tax cat losses of \$260 million up 10% year over year. These weather related losses will continue to impart volatility to the earnings of its Property and Casualty business.
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Last Earnings Report

MetLife Q4 Earnings & Revenues Top Estimates, Rise Y/Y

MetLife, Inc.'s fourth-quarter 2019 operating earnings of \$1.98 per share beat the Zacks Consensus Estimate by 41.4% and surged 46.7% year over year. Earnings gained from a rise in revenues.

Behind the Headlines

The company generated operating revenues of \$18.2 billion, up 18% year over year, and surpassed the Zacks Consensus Estimate by 8.9%.

Adjusted premiums, fees & other revenues, excluding pension risk transfer, grew 24% year over year to \$13.8 billion. Net investment income (adjusted) of \$4.5 billion increased 3% year over year.

Total adjusted expenses of \$16.5 million were up 19.6% year over year.

Book value per share was \$48.97, up 9.7% year over year.

Tangible return on equity was 6.1%, down 1830 basis points year over year.

Quarterly Segment Details

United States

Adjusted earnings in this segment declined 1% year over year to \$675 million due to unfavorable underwriting. Adjusted premiums, fees & other revenues were \$8.6 billion, up 50% year over year.

Asia

Operating earnings of \$341 million increased 21% year over year, driven by volume growth and higher investment margins. Adjusted premiums, fees & other revenues were \$2.1 billion, down 2% on a constant-currency basis.

Latin America

Operating earnings were \$161 million, up 18% year over year, driven by capital markets and volume growth. Adjusted premiums, fees & other revenues were \$888 million, down 7% due to lower annuity sales in Chile.

Europe, the Middle East, and Africa (EMEA)

Operating earnings from EMEA increased 20% year over year to \$66 million, primarily driven by favorable taxes and volume growth, partially offset by unfavorable underwriting.

Adjusted premiums, fees & other revenues were \$670 million, up 5% year over year on a constant-currency basis.

MetLife Holdings

Adjusted operating earnings from MetLife Holdings came in at \$269 million, up 21% year over year.

Operating premiums, fees & other revenues were \$1.3 billion, down 5% year over year.

Financial Update

As of Dec 31, 2019, shareholders' equity was \$62.8 billion, up 27.1% year over year.

Long-term debt as of Dec 31, 2019 was \$13.5 billion, up 5.5% year over year.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	8.76%
EPS Surprise	41.43%
Quarterly EPS	1.98
Annual EPS (TTM)	6.11

Recent News

MetLife to Acquire PetFirst – Dec 6, 2019

MetLife has announced that it will acquire PetFirst, a company providing insurance coverage for pets.

The deal, which is to be sealed in the first quarter of 2020, will provide MetLife instant access to the underpenetrated and rapidly growing pet insurance market.

MetLife Originates \$7.7 billion in Private Placement Debt – Aug 14, 2019

MetLife originated \$7.7 billion in private placement debt, a record amount for MetLife Investment Management, in the first half of 2019, reflecting a 10% increase year over year. This included \$2.4 billion of investments originated on behalf of unaffiliated/third-party clients.

Valuation

MetLife shares are up 21.5% in a year's time. Over the past year, the Zacks sub-industry and the sector is up 12.1% and 10.9%, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 0.7X trailing-12-month price to book, which compares to 1.39X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.56X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.04X and as low as 0.52X, with a 5-year median of 0.79X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$60 price target reflects 0.81X book value.

The table below shows summary valuation data for MET

Valuation Multiples - MET					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.7	1.39	2.83	4.56
	5-Year High	1.04	1.98	2.89	4.56
	5-Year Low	0.52	0.94	1.83	2.85
	5-Year Median	0.79	1.46	2.51	3.61
P/S F12M	Current	0.72	1.27	6.53	3.3
	5-Year High	0.94	1.74	6.62	3.41
	5-Year Low	0.56	0.89	5.21	2.54
	5-Year Median	0.75	1.33	6.04	3
P/E F12M	Current	8.46	9.96	14.94	18.94
	5-Year High	11.99	12.61	16.21	19.32
	5-Year Low	5.98	8.4	12.01	15.15
	5-Year Median	8.51	10.22	13.98	17.42

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 255)



Top Peers

W.R. Berkley Corporation (WRB)	Outperform
Aflac Incorporated (AFL)	Neutral
American International Group, Inc. (AIG)	Neutral
The Allstate Corporation (ALL)	Neutral
CNA Financial Corporation (CNA)	Neutral
CNO Financial Group, Inc. (CNO)	Neutral
The Hartford Financial Services Group, Inc. (HIG)	Neutral
Prudential Financial, Inc. (PRU)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MET Outperform	X Industry	S&P 500	AFL Neutral	AIG Neutral	PRU Neutral
VGM Score	B	-	-	B	A	B
Market Cap	47.70 B	5.01 B	24.40 B	38.71 B	46.46 B	38.32 B
# of Analysts	6	2	13	8	7	7
Dividend Yield	3.39%	1.93%	1.75%	2.05%	2.40%	4.20%
Value Score	A	-	-	B	B	A
Cash/Price	0.78	0.23	0.04	0.11	0.59	1.31
EV/EBITDA	4.48	8.14	14.17	7.53	8.14	1.82
PEG Ratio	1.01	1.16	2.05	3.49	1.05	0.86
Price/Book (P/B)	0.72	1.13	3.31	1.34	0.69	0.60
Price/Cash Flow (P/CF)	10.08	10.35	13.63	8.98	7.35	7.60
P/E (F1)	8.52	11.10	19.08	11.85	10.54	7.73
Price/Sales (P/S)	0.69	1.10	2.67	1.74	0.92	0.66
Earnings Yield	11.74%	8.89%	5.24%	8.44%	9.49%	12.93%
Debt/Equity	0.22	0.21	0.71	0.23	0.53	0.29
Cash Flow (\$/share)	5.14	3.07	6.89	5.87	7.26	12.54
Growth Score	D	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	0.36%	4.22%	10.80%	8.79%	-13.65%	5.94%
Proj. EPS Growth (F1/F0)	-0.27%	8.79%	7.23%	0.28%	10.32%	5.50%
Curr. Cash Flow Growth	7.75%	9.66%	9.51%	16.19%	5.26%	6.28%
Hist. Cash Flow Growth (3-5 yrs)	-5.77%	-0.76%	8.55%	9.14%	-10.95%	0.73%
Current Ratio	0.14	0.38	1.20	0.05	0.26	0.10
Debt/Capital	17.89%	17.51%	42.90%	18.49%	34.33%	22.64%
Net Margin	8.39%	7.08%	11.76%	14.81%	3.56%	7.20%
Return on Equity	9.14%	6.77%	16.98%	11.76%	4.17%	7.81%
Sales/Assets	0.10	0.23	0.54	0.15	0.10	0.07
Proj. Sales Growth (F1/F0)	0.32%	3.43%	4.15%	-1.74%	1.18%	3.87%
Momentum Score	F	-	-	A	B	F
Daily Price Chg	0.66%	0.00%	-0.11%	-1.01%	1.77%	-0.32%
1 Week Price Chg	-3.04%	-2.00%	-2.60%	-1.57%	-1.57%	-2.63%
4 Week Price Chg	-0.95%	-0.02%	1.51%	0.46%	2.16%	0.67%
12 Week Price Chg	5.21%	1.43%	5.63%	-2.66%	-1.44%	2.72%
52 Week Price Chg	19.19%	12.21%	17.01%	8.85%	24.70%	4.44%
20 Day Average Volume	5,210,963	114,141	1,961,054	3,071,802	4,056,249	1,883,221
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.86%
(F1) EPS Est 4 week change	-0.31%	-0.31%	-0.00%	0.31%	0.34%	-0.78%
(F1) EPS Est 12 week change	1.30%	-1.06%	-0.16%	-1.13%	-0.76%	-3.81%
(Q1) EPS Est Mthly Chg	-1.91%	0.00%	0.00%	1.69%	-0.91%	-1.81%

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	D
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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