

MetLife, Inc. (MET)

\$52.37 (As of 01/09/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: F

Momentum: A

Summary

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. Investment in efficiency programs will likely put pressure on margins. Also, the company's net investment income might continue to decline in 2019 due to lower interest rates, which will likely pressurize investment yields.

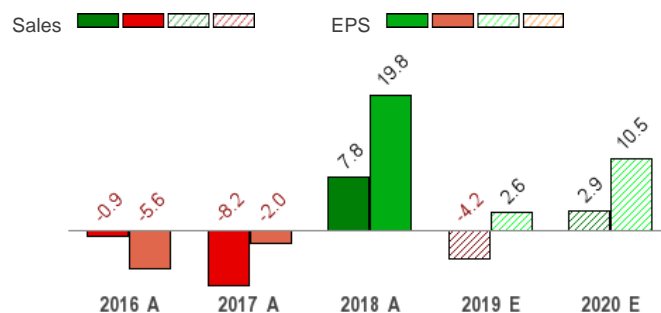
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.73 - \$41.41
20 Day Average Volume (sh)	4,822,558
Market Cap	\$48.2 B
YTD Price Change	2.8%
Beta	1.13
Dividend / Div Yld	\$1.76 / 3.4%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 39% (155 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.9%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	02/05/2020
Earnings ESP	-0.6%
P/E TTM	9.6
P/E F1	8.6
PEG F1	1.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					67,190 E
2019	15,448 A	16,454 A	16,918 A	16,693 E	65,266 E
2018	15,138 A	21,216 A	16,400 A	15,397 A	68,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.53 E	\$1.51 E	\$1.57 E	\$1.53 E	\$6.11 E
2019	\$1.48 A	\$1.38 A	\$1.27 A	\$1.40 E	\$5.53 E
2018	\$1.36 A	\$1.30 A	\$1.38 A	\$1.35 A	\$5.39 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 01/09/2020. The reports text is as of 01/10/2020.

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 2018) 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.

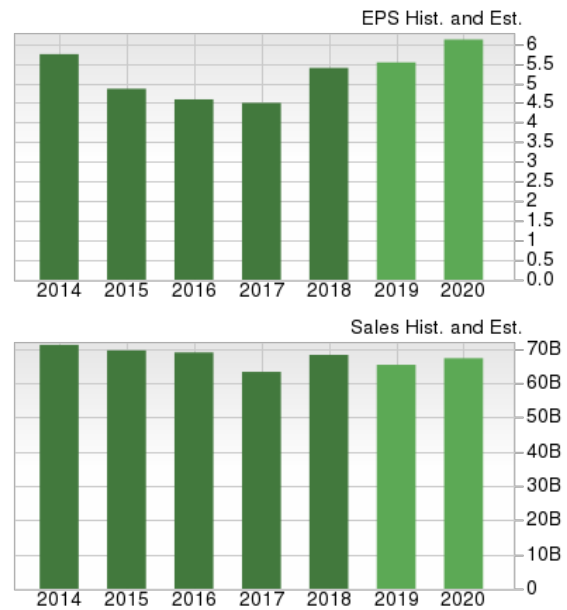
The Asia segment (18%) offers a broad range of products to individuals and corporations, as well as other institutions and their respective employees, which include whole life, term life, variable life, universal life, accident & health insurance, fixed and variable annuities, credit insurance and endowment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

▲ **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 140 basis point improvement in the annual direct expense ratio from 2015 to 2018. The company is committed to achieve its goal of \$800 million of pre-tax profit margin improvement by 2020. 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 (28% compared with the industry's ratio of 92%). The company also manages its capital efficiently. The company's free cash flow ratio rose from 26% in 2012 to average 66% in 2018. This strong free cash flow generation has enabled MetLife to repurchase more than \$10 billion of common shares over the last five years and hike its dividend at a compound average growth rate of 12% since 2011. Recently, the company increased its quarterly dividend by 4.8%. It has 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.

Reasons To Sell:

▼ **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 2.3% in the first nine months of 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 2017, hurricanes Irma and Harvey and the California wild fires caused a net loss of \$60 million. The company again incurred pre-tax catastrophe losses of \$236 million in 2018. In the first nine months of 2019, the company incurred pre-tax cat losses of \$189 million. These weather related losses will continue to impart volatility to the earnings of its Property and Casualty business.

Exposure to catastrophe loss, pressure on investment income, low profitability are some of the headwinds faced by the company

Last Earnings Report

MetLife Q3 Earnings Miss, Revenues Beat Estimates

MetLife's third-quarter 2019 operating earnings of \$1.27 per share missed the Zacks Consensus Estimate by 9.93%. The bottom line declined 8% year over year. Earnings suffered from increase in expenses, which offset revenue growth.

Behind the Headlines

The company generated operating revenues of \$16.9 billion, up 3% year over year, and surpassed the Zacks Consensus Estimate by 3.4%.

Adjusted premiums, fees & other revenues, excluding pension risk transfer, grew 2% year over year to \$11.2 billion. Net investment income of \$4.6 billion increased 3% year over year.

Total expenses of \$15.9 million were up 4.6% year over year due to higher policyholder benefits and claims, and other expenses.

Book value per share was \$48.56, up 13% year over year.

Tangible return on equity was 16.4%, down 220 basis points year over year.

Quarterly Segment Details

United States

Adjusted earnings in this segment declined 11% year over year to \$707 million due to unfavorable underwriting. Adjusted premiums, fees & other revenues were \$6.1 billion, up 4% year over year.

Asia

Operating earnings of \$349 million increased 33% year over year, driven by volume growth and favorable variable investment income. Adjusted premiums, fees & other revenues were \$2.1 billion, down 3% on a constant-currency basis.

Latin America

Operating earnings were \$155 million, down 4% year over year. Adjusted premiums, fees & other revenues were \$967 million, up 8%, primarily driven by growth across the region.

Europe, the Middle East, and Africa (EMEA)

Operating earnings from EMEA decreased 2% year over year to \$53 million, due to less favorable underwriting and higher taxes.

Adjusted premiums, fees & other revenues were \$656 million, up 6% year over year on a constant-currency basis.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	3.36%
EPS Surprise	-9.93%
Quarterly EPS	1.27
Annual EPS (TTM)	5.48

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 19.8% in the year-to-date. Over the past year, the Zacks sub-industry and the sector is up 12.7% and 15%, respectively.

The S&P 500 index is up 25.3% 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 4.47X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 0.74X price to book ratio.

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	4.47
	5-Year High	1.04	1.98	2.89	4.47
	5-Year Low	0.52	0.94	1.83	2.85
	5-Year Median	0.79	1.46	2.5	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	8.57	9.78	14.97	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	8.5	10.22	13.98	17.42

As of 01/09/2019

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 254)



Top Peers

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
W.R. Berkley Corporation (WRB)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MET Neutral	X Industry	S&P 500	AFL Neutral	AIG Neutral	PRU Neutral
VGM Score	B	-	-	B	B	A
Market Cap	48.16 B	5.00 B	23.84 B	38.54 B	45.48 B	38.07 B
# of Analysts	5	2	13	7	6	6
Dividend Yield	3.36%	1.93%	1.79%	2.06%	2.45%	4.22%
Value Score	A	-	-	A	B	A
Cash/Price	0.76	0.21	0.04	0.11	0.58	1.28
EV/EBITDA	4.55	9.12	13.88	7.44	8.00	1.87
PEG Ratio	1.01	1.15	2.02	2.81	1.04	0.85
Price/Book (P/B)	0.71	1.17	3.33	1.31	0.68	0.57
Price/Cash Flow (P/CF)	10.18	10.56	13.76	8.94	7.20	7.55
P/E (F1)	8.57	11.13	18.76	11.83	10.35	7.62
Price/Sales (P/S)	0.71	1.09	2.63	1.77	0.90	0.65
Earnings Yield	11.67%	8.94%	5.32%	8.46%	9.66%	13.13%
Debt/Equity	0.21	0.21	0.72	0.21	0.53	0.29
Cash Flow (\$/share)	5.14	3.14	6.94	5.87	7.26	12.54
Growth Score	F	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	0.36%	4.22%	10.56%	8.79%	-13.65%	5.94%
Proj. EPS Growth (F1/F0)	10.52%	9.89%	7.46%	0.49%	11.11%	7.25%
Curr. Cash Flow Growth	7.75%	8.34%	14.83%	16.19%	5.26%	6.28%
Hist. Cash Flow Growth (3-5 yrs)	-5.77%	-0.76%	9.00%	9.14%	-10.95%	0.73%
Current Ratio	0.15	0.38	1.23	0.05	0.26	0.11
Debt/Capital	17.40%	17.26%	42.99%	17.47%	34.33%	22.41%
Net Margin	10.82%	6.85%	11.08%	13.96%	3.56%	6.67%
Return on Equity	8.82%	6.77%	17.16%	12.45%	4.17%	8.45%
Sales/Assets	0.09	0.23	0.55	0.15	0.10	0.07
Proj. Sales Growth (F1/F0)	2.95%	3.75%	4.16%	-1.39%	NA	3.51%
Momentum Score	A	-	-	C	F	B
Daily Price Chg	1.04%	0.02%	0.39%	0.02%	1.10%	0.76%
1 Week Price Chg	0.51%	0.08%	-0.30%	0.68%	0.57%	0.04%
4 Week Price Chg	3.62%	0.00%	2.38%	-2.60%	2.45%	0.16%
12 Week Price Chg	14.10%	4.62%	6.40%	-0.28%	-3.29%	5.95%
52 Week Price Chg	20.75%	12.89%	22.97%	14.70%	26.22%	8.46%
20 Day Average Volume	4,822,558	106,302	1,610,101	2,629,380	3,398,939	1,734,551
(F1) EPS Est 1 week change	0.16%	0.00%	0.00%	0.00%	0.00%	0.34%
(F1) EPS Est 4 week change	1.06%	0.00%	0.00%	-0.16%	-0.62%	-0.03%
(F1) EPS Est 12 week change	0.91%	0.00%	-0.50%	-0.78%	-1.70%	-6.73%
(Q1) EPS Est Mthly Chg	1.10%	0.00%	0.00%	0.00%	-1.13%	-1.08%

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	A
Growth Score	F
Momentum Score	A
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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