

MetLife, Inc. (MET)

\$39.78 (As of 08/10/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

MetLife's second-quarter earnings missed estimates and plunged 39.9% year over year on lower revenues. Nevertheless, it has been performing well led by prudent underwriting and expense management. Its efforts to streamline business and focus on core operations are impressive. The company has undertaken strategies to control costs, which should aid margins. Its solvency position looks strong, which will likely help it sail through the difficult operating environment. Its shares have underperformed its industry in a year. Nevertheless, the company's strong free cash flow generation abilities and effective capital deployment measures bode well. However, its exposure to catastrophe loss remains a concern. Also, its net investment income might continue to decline due to lower interest rates, which will likely weigh on investment yields.

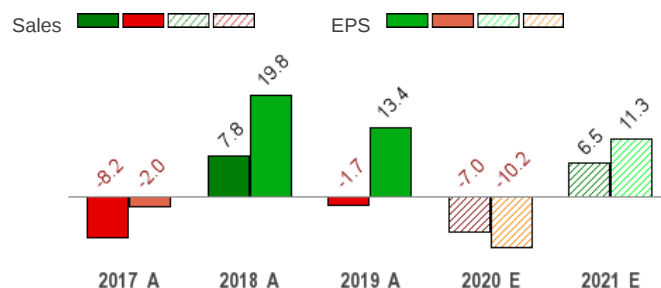
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.28 - \$22.85
20 Day Average Volume (sh)	5,279,198
Market Cap	\$36.1 B
YTD Price Change	-22.0%
Beta	1.33
Dividend / Div Yld	\$1.84 / 4.6%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 34% (166 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-13.5%
Last Sales Surprise	-9.9%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	11/04/2020
Earnings ESP	-1.6%
P/E TTM	7.0
P/E F1	7.3
PEG F1	0.9
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,305 E	16,296 E	16,964 E	17,596 E	66,355 E
2020	15,537 A	13,845 A	16,347 E	16,539 E	62,285 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	\$1.47 E	\$1.41 E	\$1.56 E	\$1.62 E	\$6.11 E
2020	\$1.58 A	\$0.83 A	\$1.59 E	\$1.52 E	\$5.49 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

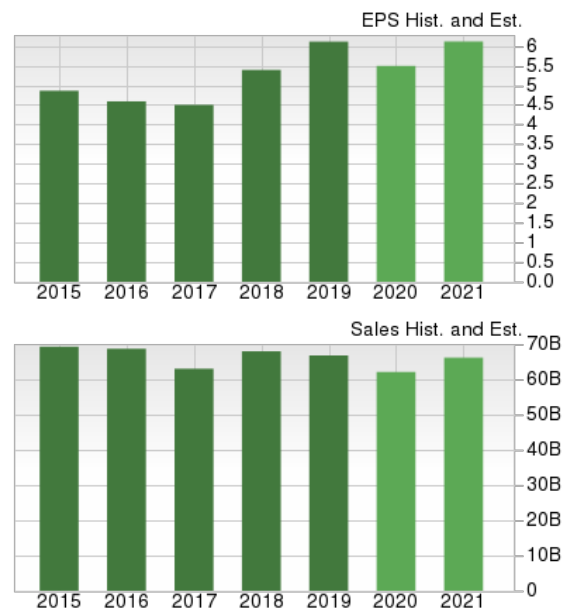
The Asia segment (18%) offers a broad range of products to individuals and corporations, as well as other institutions and their respective employees, which include whole life, term life, variable life, universal life, accident & health insurance, fixed and variable annuities, credit insurance and endowment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

▲ **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. For the first half of 2020, the expense ratio came in at 12.2%, which improved 40 basis points (bps) year over year. The company is on track to deliver a direct expense ratio of 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.

▲ **Strong Solvency Position:** As of Jun 30, 2020, the company's debt was 23.7% of its equity, which compared favorably with the prior-quarter figure of 25.5%. As of the second-quarter end, the company's long-term debt of \$14.5 billion was lower than its cash and cash equivalents of \$24.3 billion. Also, the company's next debt maturity of \$500-million senior notes will be in December 2022. Its times interest earned ratio of 38x compared favorably with the industry's figure of 10.3x. The company's solvency position looks strong, which will help it sail through the difficult operating environment.

▲ **Strong Cash Flow and Capital Management:** The company also manages its capital efficiently. Its free cash flow ratio rose from 26% in 2012 to average 72% in 2019. This strong free cash flow generation 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 the past eight straight years. In April 2020, it increased its quarterly dividend by 4.5%. MetLife's quarterly dividend saw a CAGR of 10.7% since 2011. Its dividend yield of 4.6% is higher than the industry's average of 2.7%.

▲ **Share Price Performance:** In a year's time, the stock has outperformed its industry. Its strong fundamentals are likely to aid it in sustaining momentum in the days ahead.

Reasons To Sell:

- ▼ **Pressure on Top line:** Due to challenging economic and operating environment stemming from the COVID-19 pandemic, the company expects a challenging face-to-face global sales environment, decline in sales across most segments, and lower adjusted PFO in majority of its segments barring Group Benefits. These in turn, may induce weak sales and thus put pressure on the top line. Likewise, the company's revenues declined 4.1% year over year in the first half of 2020.
- ▼ **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, net investment income plunged 25.5% year over year in the first half of 2020. 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 second-quarter 2020, the company incurred after-tax cat losses of \$89 million, up 43.5% year over year. These weather related losses will continue to impart volatility to the company's underwriting results, which is likely to remain under pressure due to the COVID-19 pandemic.

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

Last Earnings Report

MetLife Q2 Earnings Fall Shy Of Estimates, Tumble Y/Y

MetLife's second-quarter 2020 operating earnings of 83 cents per share missed the Zacks Consensus Estimate by 13.5% and also declined 39.9% year over year. The company's results were negatively impacted by lower revenues.

Behind the Headlines

The company's operating revenues of \$13.8 billion were down 15.9% year over year and also missed the Zacks Consensus Estimate by 9.9%. Adjusted premiums, fees & other revenues excluding pension risk transfer were down 8% year over year to \$10.5 billion.

Net investment income (adjusted) of \$3.4 billion was down 24% year over year due to loss in variable investment income.

Total expenses of \$13.9 million were down 8.5% year over year. Adjusted expense ratio of 20.6% was up 60 basis points year over year. Adjusted book value per share was \$52.27, up 11% year over year. Adjusted return on equity was 6.4%, down 570 basis points year over year.

Quarterly Segment Details

United States

Adjusted earnings in this segment declined 29% year over year to \$523 million due to lower variable investment income. Adjusted premiums, fees & other revenues were \$5.7 billion, down 15% year over year due to weak contributions from Group Benefits, Property & Casualty, and Retirement and Income Solution sub-segment.

Asia

Operating earnings of \$256 million were down 29% year over year due to a decline in variable investment income. However, the same was partly offset by higher volume and expense margins. Adjusted premiums, fees & other revenues were \$2 billion, down 3% on constant-currency basis.

Latin America

Operating earnings of \$132 million were down 17% year over year due to adverse foreign exchange rates. Adjusted premiums, fees & other revenues were \$737 million, down 31% due to soft annuity sales in Chile.

EMEA

Operating earnings from EMEA surged 51% year over year to \$116 million, primarily driven by favourable underwriting and expense margins. Adjusted premiums, fees & other revenues of \$660 million inched up 2% year over year on constant-currency basis.

MetLife Holdings

Adjusted operating earnings from MetLife Holdings came in at \$20 million, down 93% year over year due to lower variable investment income along with unfavourable underwriting margins. Operating premiums, fees & other revenues were \$1.2 billion, down 5% year over year.

Corporate & Other

The segment's adjusted loss of \$289 million in the second quarter was narrower than the adjusted loss of \$307 million in the prior-year quarter.

Financial Update

As of Jun 30, 2020, shareholders' equity was \$64 billion, down 3.5% from the level at 2019 end. Long-term debt as of the second-quarter end was \$13.3 billion, down 0.9% from the level at 2019 end.

Cash and cash equivalents of \$18 billion as of Jun 30, 2020 were up 11.1% from the level at 2019 end.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	-9.86%
EPS Surprise	-13.54%
Quarterly EPS	0.83
Annual EPS (TTM)	5.66

Recent News

MetLife Announces Third-Quarter 2020 Dividend – Jul 8, 2020

The board of directors at MetLife has announced third-quarter 2020 dividend of 46 cents per share, which will be paid on Sep 14, 2020 to shareholders of record as on Aug 4.

MetLife Joins PlanSource Boost to Enhance Benefits Experience – Jun 30, 2020

MetLife extended alliance with PlanSource, which is renowned for offering cloud-based solutions aimed at enhancing the process of benefits administration for HR personnel and employees. Following this extended collaboration, MetLife will become part of PlanSource Boost program. This program comprising automation, optimized benefits shopping and real-time API integrations, primarily intends to enhance the benefits experience for employers and employees. Through this program, MetLife and PlanSource will be working together for creation of APIs.

MetLife Unit Reaches Longevity Reinsurance Agreement With PIC – Jun 18, 2020

MetLife's unit Metropolitan Tower Life Insurance Company recently announced its first United Kingdom longevity reinsurance deal with Pension Insurance Corporation plc (PIC). Per the terms of the transaction, Metropolitan Tower Life Insurance Company will provide reinsurance to PIC for longevity risk worth around \$280 million of pension liabilities. This deal is allowing the company to establish itself as a reinsurance solution provider for direct insurers in the United Kingdom. We believe that the company's experience in the concerned field bodes well as it forays into the U.K. longevity reinsurance market.

MetLife Provides Relief to Auto Insurance Customers – Apr 10, 2020

MetLife has taken certain actions to support its customers, given the uncertainty caused by the COVID-19 breakout. MetLife Auto & Home will not cancel policies due to non-payment through Jul 1, 2020. Active MetLife Auto customers who are paid to date will receive a 15% credit for April and May based on their monthly premiums. MetLife Auto & Home is extending coverage under all personal auto insurance programs at no additional charge while customers are making deliveries in response to the crisis, effective Mar 20, 2020 through May 1, 2020. MetLife Auto & Home is expanding its existing cyber security services through CyberScout to immediate family members of current customers through Aug 2020.

Valuation

MetLife's shares are down 19% and 10.1% 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 21.6% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.7% and 6.1%, respectively.

The S&P 500 index is up 4.2% and up 16.7% in the year-to-date and past year, respectively.

The stock is currently trading at 0.48x trailing-12-month price-to-book, which compares to 1.09x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.68x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.04x and as low as 0.33x, with a 5-year median of 0.77x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$42 price target reflects 0.51x 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	0.48	1.09	2.47	4.68
	5-Year High	1.04	1.98	2.91	4.68
	5-Year Low	0.33	0.85	1.72	2.83
	5-Year Median	0.77	1.48	2.53	3.74
P/S F12M	Current	0.56	0.77	6.22	3.66
	5-Year High	0.94	1.74	6.66	3.66
	5-Year Low	0.32	0.77	4.96	2.53
	5-Year Median	0.71	1.26	6.06	3.05
P/E F 12M	Current	6.78	8.66	16.77	22.75
	5-Year High	11.99	12.61	16.77	22.75
	5-Year Low	3.86	6.62	11.59	15.25
	5-Year Median	8.29	9.98	14.26	17.58

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
CNO Financial Group, Inc. (CNO)	Neutral	3
The Hartford Financial Services Group, Inc. (HIG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
American International Group, Inc. (AIG)	Underperform	4
CNA Financial Corporation (CNA)	Underperform	3

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MET	X Industry	S&P 500	AFL	AIG	PRU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	A	B	C
Market Cap	36.11 B	3.63 B	23.56 B	26.71 B	27.10 B	27.47 B
# of Analysts	4	3	14	6	6	5
Dividend Yield	4.63%	2.23%	1.71%	2.99%	4.07%	6.33%
Value Score	B	-	-	A	B	A
Cash/Price	1.18	0.34	0.07	0.21	1.14	2.08
EV/EBITDA	1.56	4.14	13.39	4.86	3.13	-1.48
PEG Ratio	0.88	1.28	2.92	1.62	1.21	0.83
Price/Book (P/B)	0.48	0.80	3.18	0.91	0.43	0.41
Price/Cash Flow (P/CF)	6.78	7.11	12.69	5.98	3.01	5.27
P/E (F1)	7.44	10.01	22.16	8.12	12.10	7.45
Price/Sales (P/S)	0.53	0.82	2.55	1.23	0.56	0.48
Earnings Yield	13.80%	9.89%	4.33%	12.33%	8.26%	13.42%
Debt/Equity	0.20	0.24	0.77	0.26	0.63	0.30
Cash Flow (\$/share)	5.87	3.45	6.94	6.26	10.45	13.20
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	5.58%	10.16%	10.41%	9.90%	2.87%	5.05%
Proj. EPS Growth (F1/F0)	-10.11%	-9.20%	-6.51%	3.98%	-43.36%	-20.15%
Curr. Cash Flow Growth	6.34%	7.19%	5.26%	2.80%	41.46%	2.41%
Hist. Cash Flow Growth (3-5 yrs)	-4.47%	1.69%	8.55%	10.44%	-3.88%	1.57%
Current Ratio	0.16	0.47	1.34	0.07	0.34	0.13
Debt/Capital	16.93%	20.31%	44.59%	20.90%	38.47%	23.26%
Net Margin	10.65%	4.27%	10.13%	13.50%	-9.46%	-0.25%
Return on Equity	7.71%	6.79%	14.59%	11.98%	3.28%	6.13%
Sales/Assets	0.09	0.20	0.51	0.14	0.09	0.06
Proj. Sales Growth (F1/F0)	-7.00%	0.00%	-1.54%	-2.46%	-7.51%	-5.21%
Momentum Score	C	-	-	A	B	C
Daily Price Chg	2.74%	1.03%	0.91%	2.60%	2.61%	2.32%
1 Week Price Chg	2.30%	3.21%	2.30%	2.67%	-4.60%	7.24%
4 Week Price Chg	6.34%	5.88%	8.54%	7.43%	5.85%	14.06%
12 Week Price Chg	19.03%	20.16%	13.68%	7.83%	10.58%	21.74%
52 Week Price Chg	-13.31%	-14.94%	3.71%	-28.38%	-42.88%	-15.98%
20 Day Average Volume	5,279,198	152,432	2,015,804	3,197,476	6,567,808	2,507,596
(F1) EPS Est 1 week change	-0.05%	0.00%	0.00%	0.47%	-1.64%	1.37%
(F1) EPS Est 4 week change	-0.05%	1.69%	1.67%	6.83%	-8.83%	1.48%
(F1) EPS Est 12 week change	1.15%	0.54%	2.27%	6.53%	-12.51%	0.60%
(Q1) EPS Est Mthly Chg	4.05%	0.00%	0.67%	5.98%	-4.05%	-0.98%

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	C
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.

Disclosures

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