

MetLife, Inc. (MET)

\$35.07 (As of 06/26/20)

Price Target (6-12 Months): **\$37.00**

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:A

Value: A

Growth: B

Momentum: C

Summary

MetLife 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 likely diversify its business. The company has undertaken strategies to control costs and increase efficiency, 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's time. Nevertheless, its disciplined capital deployment via buybacks and dividend payments is impressive. However, its exposure to catastrophe loss remains a concern. Also, the company's net investment income might continue to decline due to lower interest rates, which will likely weigh on investment yields.

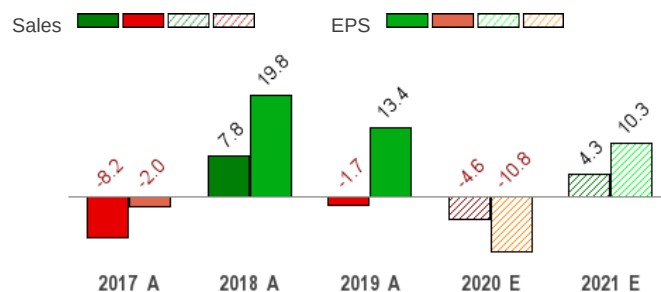
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.28 - \$22.85
20 Day Average Volume (sh)	7,169,719
Market Cap	\$31.8 B
YTD Price Change	-31.2%
Beta	1.31
Dividend / Div Yld	\$1.84 / 5.2%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 36% (91 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	-7.0%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	07/29/2020
Earnings ESP	-11.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,438 E	16,469 E	16,526 E	16,639 E	66,698 E
2020	15,537 A	15,432 E	16,358 E	16,489 E	63,918 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	\$1.40 E	\$1.44 E	\$1.46 E	\$1.50 E	\$6.01 E
2020	\$1.58 A	\$1.01 E	\$1.38 E	\$1.46 E	\$5.45 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	5.7
P/E F1	6.4
PEG F1	0.8
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/26/2020. The reports text is as of 06/29/2020.

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.

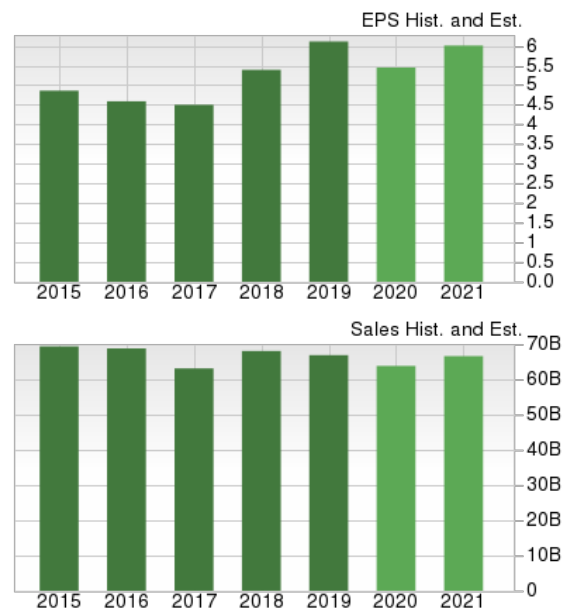
The Asia segment (18%) offers a broad range of products to individuals and corporations, as well as other institutions and their respective employees, which include whole life, term life, variable life, universal life, accident & health insurance, fixed and variable annuities, credit insurance and endowment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

▲ **Strong Solvency Position:** As of Mar 31, 2020, the company's debt was 20% of its equity, which was intact sequentially. As of the first-quarter end, the company's long-term debt of \$14.5 billion was lower than its cash and cash equivalents of \$24.1 billion. Also, the company's next debt maturity of \$500-million senior notes will be in December 2022. Its times interest earned ratio of 26.4x improved from 8.45x in the previous quarter. 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 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 5.25% is higher than the industry's average of 2.91%.

▲ **Share Price Performance:** In a year's time, the stock has underperformed its industry. Nevertheless, its strong fundamentals are likely to drive its shares going forward.

Reasons To Sell:

- ▼ **Pressure on Top line:** Due to challenging economic and operating environment created by the COVID-19 pandemic, the company expects a challenging face-to-face global sales environment, decline in sales across most segments, lower adjusted PFO in Group Benefits, RIS and Latin America. These in turn, may induce weak sales and thus put pressure on the top line.
- ▼ **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 and 1% in the first quarter 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 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.

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

Last Earnings Report

MetLife's (MET) Q1 Earnings Top Estimates, Revenues Lag

MetLife, Inc.'s first-quarter 2020 operating earnings of \$1.58 per share beat the Zacks Consensus Estimate by 8.97% and also improved 6.7% year over year.

Behind the Headlines

Though the company's operating revenues of \$15.5 billion were up 1% year over year, the same missed the Zacks Consensus Estimate by 7%.

Adjusted premiums, fees & other revenues excluding pension risk transfer were up marginally 0.4% year over year to \$11.2 billion.

Net investment income (adjusted) of \$4.3 billion was up 1% year over year, driven by higher private equity income.

Total adjusted expenses of \$13.7 million were up 0.6% year over year.

Adjusted expense ratio of 19.7% was down 80 basis points year over year.

Adjusted book value per share was \$52.36, up 15% year over year.

Adjusted return on equity was 12.6%, down 110 basis points year over year.

Quarterly Segment Details

United States

Adjusted earnings in this segment increased 8% year over year to \$780 million on higher contribution in Retirement and Income Solutions, and Property and Casualty, partly offset by lower underwriting margins in the

Group Benefits sub-segment.

Adjusted premiums, fees & other revenues were \$6.2 billion, up 2% year over year owing to higher premiums in Group Benefits, and Property and Casualty sub-segments, partly offset by lower premiums in Retirement and Income Solution sub-segment.

Asia

Operating earnings of \$351 million stayed flat year over year, attributable to volume growth, which in turn, was offset by less favorable underwriting, unfavorable equity markets and soft investment margins.

Adjusted premiums, fees & other revenues were \$2.1 billion, down 2% on constant-currency basis.

Latin America

Operating earnings of \$95 million were down 19% year over year due to lower equity returns, which impacted the Chilean encaje returns. Adjusted premiums, fees & other revenues were \$921 million, up 8% on improved sales in Chile, Mexico and Brazil.

Operating earnings from EMEA decreased 6% year over year to \$78 million, primarily due to lower equity markets and unfavorable underwriting. Adjusted premiums, fees & other revenues of \$697 million were up 8% year over year on constant-currency basis on the back of higher sales.

MetLife Holdings

Adjusted operating earnings from MetLife Holdings came in at \$277 million, down 13% year over year.

Operating premiums, fees & other revenues were \$1.2 billion, down 3% year over year.

Financial Update

As of Mar 31, 2020, shareholders' equity was \$65.9 billion, up 19.4% year over year.

Long-term debt as of the first-quarter end was \$14.5 billion, up 7.4% sequentially.

Cash and cash equivalents of \$24.1 billion as of Mar 31, 2020, were up 45.2% sequentially.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	-7.02%
EPS Surprise	8.97%
Quarterly EPS	1.58
Annual EPS (TTM)	6.21

Recent News

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 31.2% and 30.5% 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 27.7% and 23.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.7% and 18.4%, respectively.

The S&P 500 index is down 6.6% and up 2.1% in the year-to-date and past year, respectively.

The stock is currently trading at 0.45x trailing-12-month price-to-book, which compares to 1.03x for the Zacks sub-industry, 2.24x for the Zacks sector and 4.11x 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 0.78x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 0.47x 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	0.45	1.03	2.24	4.11
	5-Year High	1.04	1.98	2.91	4.56
	5-Year Low	0.33	0.85	1.71	2.83
	5-Year Median	0.78	1.48	2.53	3.69
P/S F12M	Current	0.49	0.98	6	3.37
	5-Year High	0.94	1.74	6.66	3.44
	5-Year Low	0.32	0.88	4.96	2.53
	5-Year Median	0.71	1.27	6.06	3.02
P/E F 12M	Current	6.13	7.96	15.65	21.51
	5-Year High	11.99	12.61	16.18	22.11
	5-Year Low	3.86	6.62	11.57	15.23
	5-Year Median	8.35	10.09	13.98	17.49

As of 06/26/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 253)



Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MET	X Industry	S&P 500	AFL	AIG	PRU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	A	B	A
Market Cap	31.83 B	3.70 B	21.00 B	24.88 B	25.59 B	22.95 B
# of Analysts	4	3	14	7	6	5
Dividend Yield	5.25%	2.54%	2%	3.23%	4.31%	7.57%
Value Score	A	-	-	A	A	A
Cash/Price	1.22	0.35	0.07	0.16	1.02	2.46
EV/EBITDA	0.80	3.91	12.28	4.62	2.87	-3.26
PEG Ratio	0.76	1.17	2.80	2.44	1.01	0.70
Price/Book (P/B)	0.45	0.78	2.88	0.94	0.42	0.38
Price/Cash Flow (P/CF)	5.97	6.85	11.08	5.54	2.84	4.40
P/E (F1)	6.43	10.05	20.57	7.99	10.05	6.32
Price/Sales (P/S)	0.44	0.79	2.14	1.14	0.49	0.40
Earnings Yield	15.54%	9.70%	4.62%	12.51%	9.93%	15.82%
Debt/Equity	0.21	0.25	0.77	0.26	0.58	0.33
Cash Flow (\$/share)	5.87	3.27	7.01	6.26	10.45	13.20
Growth Score	B	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	4.04%	9.41%	10.84%	9.79%	-1.48%	5.79%
Proj. EPS Growth (F1/F0)	-10.84%	-6.11%	-10.73%	-2.28%	-35.62%	-21.35%
Curr. Cash Flow Growth	6.34%	6.77%	5.46%	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	0.48	1.29	0.05	0.27	0.14
Debt/Capital	17.08%	21.55%	45.14%	20.38%	36.41%	24.81%
Net Margin	12.37%	5.09%	10.53%	13.49%	8.59%	5.16%
Return on Equity	8.85%	7.05%	16.06%	11.84%	4.31%	7.13%
Sales/Assets	0.10	0.20	0.55	0.14	0.10	0.07
Proj. Sales Growth (F1/F0)	-4.56%	0.00%	-2.70%	-3.65%	-4.23%	-4.95%
Momentum Score	C	-	-	C	A	B
Daily Price Chg	-3.49%	-2.40%	-1.90%	-3.21%	-4.96%	-3.89%
1 Week Price Chg	-0.35%	-0.11%	0.92%	-0.11%	-3.72%	-0.11%
4 Week Price Chg	-3.81%	0.38%	-3.33%	-5.32%	-4.53%	-6.06%
12 Week Price Chg	25.03%	12.60%	19.31%	8.95%	39.81%	24.60%
52 Week Price Chg	-28.65%	-24.05%	-9.84%	-36.43%	-44.00%	-41.45%
20 Day Average Volume	7,169,719	183,264	2,782,477	4,571,401	6,948,331	4,253,937
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.10%	0.00%	0.00%	0.11%	2.01%	-0.01%
(F1) EPS Est 12 week change	-9.24%	-13.16%	-12.23%	-2.56%	-33.08%	-22.93%
(Q1) EPS Est Mthly Chg	7.18%	0.00%	0.00%	0.55%	15.72%	1.11%

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	B
Momentum Score	C
VGM Score	A

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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