

Reinsurance Group(RGA)

\$159.15 (As of 01/07/20)

Price Target (6-12 Months): **\$183.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: A

Summary

Reinsurance Group's shares have outperformed its industry in a year's time. The company steadily benefits from a mix of organic and transactional opportunities. Its niche position in reinsurance markets, expansion of international footprint are key positives. Significant value embedded in in-force business should generate predictable long-term earnings while product-line expansion is expected to diversify risk. Moreover, it is poised to benefit from an improving life reinsurance pricing environment, improved premiums and higher investment income. However, escalating expenses due to higher claims, operating costs, collateral finance tend to weigh on margin expansion. Also, exposure to unfavorable foreign exchange movement and low interest rate are concerns. Lower return on equity also poses financial risk.

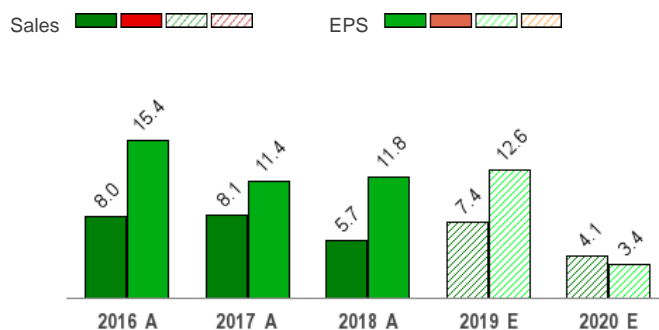
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.08 - \$139.83
20 Day Average Volume (sh)	254,423
Market Cap	\$10.0 B
YTD Price Change	-2.4%
Beta	0.64
Dividend / Div Yld	\$2.80 / 1.8%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Top 12% (30 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.5%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	01/28/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					14,586 E
2019	3,412 A	3,360 A	3,579 A	3,596 E	14,014 E
2018	3,099 A	3,206 A	3,248 A	3,418 A	13,046 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.95 E	\$3.46 E	\$3.77 E	\$3.93 E	\$14.11 E
2019	\$2.61 A	\$3.31 A	\$4.02 A	\$3.71 E	\$13.65 E
2018	\$1.61 A	\$3.10 A	\$4.03 A	\$3.46 A	\$12.12 A

*Quarterly figures may not add up to annual.

P/E TTM	11.9
P/E F1	11.3
PEG F1	NA
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

Formed in 1992 in Timberlake, MO, Reinsurance Group of America Inc. is a leading global provider of traditional life and health reinsurance and financial solutions with operations in the United States, Latin America, Canada, Europe, the Middle East, Africa, Asia and Australia.

Its Traditional reinsurance includes individual and group life and health, disability, and critical illness reinsurance. Life reinsurance primarily refers to reinsurance of individual or group-issued term, whole life, universal life, and joint and last survivor insurance policies. Health and disability reinsurance primarily refers to reinsurance of individual or group health policies. Critical illness reinsurance provides a benefit in the event of the diagnosis of a pre-defined critical illness.

Its Financial solutions include longevity reinsurance, asset-intensive reinsurance, financial reinsurance and stable value products.

Reinsurance Group reports through four geographic segments:

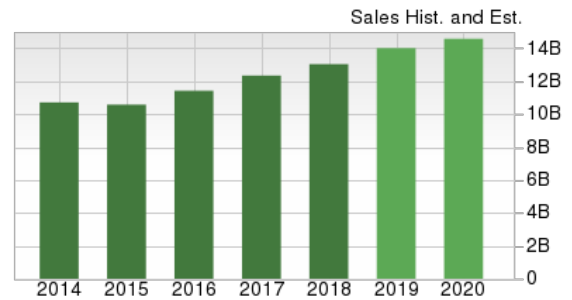
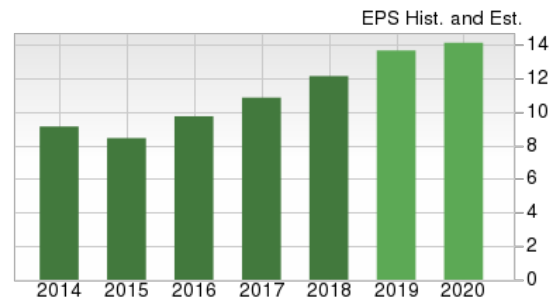
U.S. and Latin America (52.7% of 2018 Net Premiums) – Segmented into traditional and non-traditional businesses, namely individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The non-traditional business also issues fee-based synthetic guaranteed investment contracts such as investment-only, stable-value contracts, to retirement plans.

Canada Operations (10.1%) – Reinsures traditional life products and creditor reinsurance, group life and health reinsurance, non-guaranteed critical illness products, and longevity reinsurance.

Europe, Middle East and Africa (15.3%) – Includes a variety of life and health products, critical illness and longevity business throughout Europe and in South Africa, in addition to other markets.

Asia Pacific (21.7%) – Includes life, critical illness, health, disability, superannuation and financial reinsurance.

Corporate and Other (0.2%) – Includes results from, among others, RGA Technology Partners, Inc., a wholly owned subsidiary that develops and markets technology solutions for the insurance industry, interest expense related to debt and investment income and expense associated with the company's collateral finance facility.



Reasons To Buy:

- ▲ Shares of Reinsurance Group have outperformed its industry in a year's time. Moreover, its solid fundamentals should continue drive the stock going forward.
- ▲ Reinsurance Group is a leader in the U.S. and Latin American traditional market. It successfully expands its product line with market leading services, capabilities, expertise and innovation. Individual mortality has matured and provides a base for stable earnings and capital generation. Significant value embedded in the in-force business is anticipated to generate predictable long-term earnings. Product-line expansion would also contribute to risk diversification. Finally, given an experienced management team, the company has a strong appetite and capacity for attractive block opportunities. Nonetheless, we expect expanded product offerings, underwriting, analytics and innovation to consistently support growth and benefit the company's clients.
- ▲ In Canada, Reinsurance Group is a market leader with solid growth and profitability. It has a sizable block of in-force business which acts as a significant source of future earnings. Reinsurance Group expects longevity insurance, which is projected to see steady demand, to see long-term growth in the Canadian market. While longevity insurance provides a source of diversified income, it also acts as a hedge to a large mortality position. Net premium from this region continued to grow.
- ▲ Reinsurance Group derives 33% of its net premiums from international operations. In Asia, the company has a significant presence in Hong Kong, Japan, India, Korea and Taiwan. Premiums increased 19% to \$655.9 million in the third quarter of 2019, reflecting growth in new and existing treaties in Asia, partially offset by a reduction in Australia. The company believes that economic growth and demographic trends leading to rapid growth in the insurance market, present abundant growth opportunities in this region. Moreover, a favorable claims experience in the region contributes to the segment's bottom line. Net premium from this region continued to grow.
- ▲ Reinsurance Group has also been managing capital effectively via share buybacks and dividend payments and prudent investments. The 16.7% dividend hike in the third quarter of 2019 marks the 10th straight year of double-digit percentage increase. Year-over-year book value per share, excluding accumulated other comprehensive income, grew 7%. Notably, it approved a new share buyback program worth \$400 million in the fourth quarter of 2018. The company expects to deploy excess capital in the range of \$300-\$400 million, on average, annually.

Reinsurance Group is poised to benefit from the changing life reinsurance pricing environment, expanding business in the pension risk transfer market and disciplined capital management.

Risks

- Reinsurance Group's expenses have been increasing over the years due to higher claims and other policy benefits, interest credited, operating costs, collateral finance and securitization expense and interest expense. Expenses increased 9% year over year in the first nine months of 2019. Such a rise in expenses has been weighing on margin, which has been fluctuating over the last few years.
 - About one-third of the company's net premiums came from operations in Europe, the Middle East and Africa and the Asia Pacific. Reinsurance Group's results are thus exposed to foreign exchange volatility. Historically, the company's premium results have been exposed to volatility from foreign exchange fluctuation.
 - Due to low interest rate, the company's net investment income has remained under pressure. Though investment increased 13% for the first nine months of 2019, Fed's dovish stance on monetary policy, which lowered interest rate, should keep investment income under pressure.
 - Reinsurance Group's return on equity of 8.5% compares unfavorably with industry average of 13%.
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Last Earnings Report

Reinsurance Beats Earnings and Revenue Estimates in Q3

Reinsurance Group of America's third-quarter 2019 adjusted operating income of \$4.02 per share, beat the Zacks Consensus Estimate by 17.5%. However, the bottom line declined 0.2% from the year-ago quarter's figure.

Net foreign currency fluctuations had an adverse impact of 2 cents on the bottom line. Better-than-expected results were driven by improved premiums and higher investment income, partially offset by increase in expenses. Reinsurance Group's operating revenues of \$3.6 billion beat the Zacks Consensus Estimate by 4.6%. The top line also improved 10.2% year over year.

Net premiums of \$2.8 billion rose 7.7% year over year. Investment income increased 18.5% from the prior-year quarter to \$678.8 million. Average investment yield improved 26 basis points to 4.83% due to higher variable investment income.

Total benefits and expenses at Reinsurance Group increased 13.8% year over year to \$3.3 billion. Higher claims and other policy benefits, interest credited, operating costs, policy acquisition costs and other insurance expenses and interest expense resulted in cost escalation.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	4.58%
EPS Surprise	17.54%
Quarterly EPS	4.02
Annual EPS (TTM)	13.40

Quarterly Segment Update

U.S. and Latin America: Total pre-tax income decreased 3.3% to \$112.5 million in the quarter under discussion. The Traditional segment reported pre-tax adjusted operating income of \$122.1 million, up 4.9% year over year, attributable to favorable experience in the Group business and strong variable investment income. This was partly offset by unfavorable individual mortality experience. Net premiums rose 3% from the year-ago quarter to \$1.4 billion.

Asset Intensive segment's pre-tax adjusted operating income improved 2.8% to \$65.6 million. Financial Reinsurance business reported pre-tax adjusted operating income of \$19.2 million, which decreased 11.1% year over year.

Canada: Total pre-tax income surged 105.3% to \$46.8 million.

Traditional segment's pre-tax adjusted operating income more than doubled to \$44.3 million on favorable individual mortality experience. However, forex had an adverse effect of \$0.5 million on the metric. Net premiums increased 11% to \$270.8 million. Net foreign currency fluctuations had an adverse impact of \$2.9 million. Financial Solutions segment's pre-tax adjusted operating income increased 93.8% year over year to \$3.1 million attributable to favorable longevity experience while net foreign currency volatility had an immaterial effect on pre-tax adjusted operating income.

Europe, Middle East and Africa (EMEA): Total pre-tax income of \$86.6 million increased 16.1% from the prior-year quarter's figure.

Pre-tax adjusted operating income of the traditional segment was \$25.5 million, up 38.6% year over year, primarily due to favorable underwriting experience overall. Net foreign currency fluctuations had a negative impact of \$1.2 million. Premiums increased 6% to \$359.4 million in the quarter. Foreign currency exchange rates had an adverse effect of \$17.1 million on the metric.

Financial Solutions segment delivered pre-tax adjusted operating income of \$59 million, up 4.6% from the year-ago quarter. Net foreign currency fluctuations had an adverse impact of \$3.3 million on the metric.

Asia/Pacific: Total pre-tax income of nearly \$23.3 million declined 62.5% from the prior-year quarter.

Traditional segment's pre-tax adjusted operating income of \$21.5 million was down 65.3% attributable to loss in Australia. Net foreign currency fluctuations impacted results favorably by \$3.1 million. Premiums increased 19% to \$655.9 million, reflecting growth in new and existing treaties in Asia, partially offset by a reduction in Australia. Foreign currency exchange rates had an adverse effect of \$11.9 million on net premiums. Financial Solutions segment's pre-tax adjusted operating income increased 230.8% to \$4.6 million attributable to new business in Asia. Net premiums increased significantly to \$30 million, attributable to new treaties added in the year 2019.

Corporate and Other: Pre-tax adjusted operating loss was \$29.9 million, wider than \$18.1 million in the prior-year period primarily due to costs related to higher incentive-based compensation accruals, strategic initiatives and service businesses.

Financial Update

As of Sep 30, 2019, Reinsurance Group had assets worth \$75.8 billion, up 20.3% from the level at 2018 end. As of Sep 30, 2019, Reinsurance Group's book value per share, excluding accumulated other comprehensive income, grew 7% year over year to \$132.02. Adjusted return on equity was 10.7%. The company exited the quarter with \$1 billion in excess capital.

Capital Deployment

Reinsurance Group deployed capital of \$150 million for in-force and other transactions. The board of directors approved a dividend of 70 cents per share, an increase of 16.7% from the prior payout. This marked the 10th straight year of double-digit percentage increase.

Recent News

Rating Action by A.M. Best on Reinsurance Group – Aug 14, 2019

AM Best has affirmed the Long-Term ICR of “a-” and all Long-Term Issue Credit Ratings (Long-Term IR) on the debt securities and indicative shelf ratings of Reinsurance Group of America. The rating agency also retained the Financial Strength Rating of A+ (Superior) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of “aa-” of RGA Reinsurance Company, RGA Americas Reinsurance Company, Ltd (Bermuda) and its subsidiaries, RGA Life Reinsurance Company of Canada and RGA Atlantic Reinsurance Company Ltd. The outlook of these ratings is stable.

Valuation

Reinsurance Group shares are up 75.5% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Zacks Finance sector are up 15.8% and 15%, respectively.

The S&P 500 index is up 24.6% in the past year.

The stock is currently trading at 0.86X trailing 12-month book value, which compares to 1.81X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.43X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.31X and as low as 0.79X, with a 5-year median of 0.99X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$183 price target reflects 0.98X trailing 12- month book value.

The table below shows summary valuation data for RGA

Valuation Multiples -RGA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.86	1.81	2.83	4.43
	5-Year High	1.31	2.59	2.9	4.45
	5-Year Low	0.79	1.22	1.83	2.85
	5-Year Median	0.99	1.89	2.5	3.6
P/S F12M	Current	0.69	2.52	6.53	3.48
	5-Year High	0.83	11.67	6.63	3.48
	5-Year Low	0.48	2.23	5.2	2.54
	5-Year Median	0.66	3.53	6.03	3
P/E F12M	Current	11.27	5.27	14.77	18.79
	5-Year High	15.13	15.13	16.22	19.34
	5-Year Low	8.67	5.27	12.01	15.17
	5-Year Median	11.14	11.36	13.97	17.44

As of 01/07/2019

Industry Analysis Zacks Industry Rank: Top 12% (30 out of 254)



Top Peers

Athene Holding Ltd. (ATH)	Neutral
Brighthouse Financial, Inc. (BHF)	Neutral
Globe Life Inc. (GL)	Neutral
Genworth Financial, Inc. (GNW)	Neutral
Lincoln National Corporation (LNC)	Neutral
Manulife Financial Corp (MFC)	Neutral
Sun Life Financial Inc. (SLF)	Neutral
Voya Financial, Inc. (VOYA)	Neutral

Industry Comparison Industry: Insurance - Life Insurance				Industry Peers		
	RGA Outperform	X Industry	S&P 500	BHF Neutral	GL Neutral	LNC Neutral
VGM Score	B	-	-	B	D	B
Market Cap	9.96 B	3.40 B	23.82 B	4.09 B	11.22 B	11.53 B
# of Analysts	2	4	13	3	4	5
Dividend Yield	1.76%	0.39%	1.8%	0.00%	0.67%	2.55%
Value Score	A	-	-	A	B	A
Cash/Price	0.27	0.28	0.04	1.49	0.01	0.86
EV/EBITDA	10.81	4.40	13.92	2.94	8.45	3.57
PEG Ratio	NA	0.56	2.00	0.35	1.79	0.64
Price/Book (P/B)	0.87	0.81	3.32	0.24	1.55	0.58
Price/Cash Flow (P/CF)	12.86	8.13	13.58	6.96	9.45	6.64
P/E (F1)	11.28	7.93	18.86	3.82	14.45	5.72
Price/Sales (P/S)	0.72	0.72	2.63	0.40	2.52	0.66
Earnings Yield	8.86%	11.63%	5.30%	26.20%	6.93%	17.50%
Debt/Equity	0.29	0.12	0.72	0.25	0.18	0.30
Cash Flow (\$/share)	12.37	2.54	6.94	5.45	10.97	8.76
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	9.68%	9.78%	10.56%	NA	11.63%	11.86%
Proj. EPS Growth (F1/F0)	3.37%	10.52%	7.49%	101.37%	6.02%	52.46%
Curr. Cash Flow Growth	17.65%	-6.71%	14.83%	-201.41%	15.00%	8.09%
Hist. Cash Flow Growth (3-5 yrs)	24.19%	6.01%	9.00%	NA	5.61%	7.39%
Current Ratio	0.12	0.21	1.23	0.54	0.05	0.21
Debt/Capital	22.69%	12.05%	42.92%	19.73%	15.60%	23.28%
Net Margin	5.40%	5.77%	11.08%	17.25%	16.57%	4.82%
Return on Equity	8.49%	8.16%	17.16%	6.21%	11.61%	10.64%
Sales/Assets	0.20	0.10	0.55	0.05	0.18	0.06
Proj. Sales Growth (F1/F0)	4.08%	3.90%	4.15%	1.28%	4.12%	2.85%
Momentum Score	A	-	-	A	D	A
Daily Price Chg	-1.16%	0.07%	-0.22%	-0.16%	-0.10%	1.11%
1 Week Price Chg	0.44%	0.11%	-0.30%	-1.27%	-1.47%	-1.31%
4 Week Price Chg	-2.92%	1.76%	2.11%	-3.83%	-0.67%	0.41%
12 Week Price Chg	1.78%	5.51%	5.70%	1.64%	8.93%	-1.54%
52 Week Price Chg	11.76%	13.36%	22.84%	15.76%	31.43%	8.53%
20 Day Average Volume	254,423	205,305	1,570,747	1,045,884	431,041	1,313,916
(F1) EPS Est 1 week change	0.68%	0.00%	0.00%	0.94%	-0.03%	0.67%
(F1) EPS Est 4 week change	0.68%	0.00%	0.00%	0.94%	-0.03%	0.67%
(F1) EPS Est 12 week change	0.32%	0.23%	-0.53%	1.33%	0.35%	-0.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	C
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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