

Reinsurance Group(RGA)

\$112.00 (As of 04/10/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Reinsurance Group 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, the company is poised to benefit from an improving life reinsurance pricing environment, improved premiums and higher investment income. The shares of the company have underperformed the industry in the past year. 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.

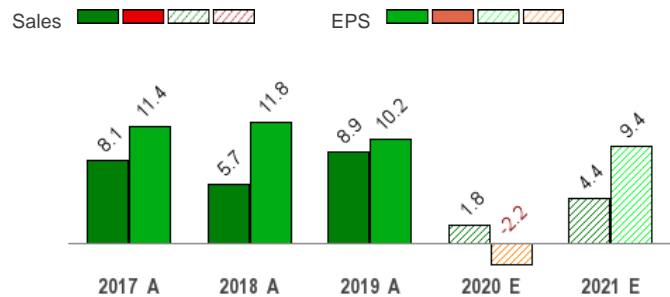
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.08 - \$55.39
20 Day Average Volume (sh)	1,201,756
Market Cap	\$6.9 B
YTD Price Change	-31.3%
Beta	1.06
Dividend / Div Yld	\$2.80 / 2.5%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Top 27% (69 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.6%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	-7.2%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	8.4
P/E F1	8.6
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,109 E
2020					14,467 E
2019	3,412 A	3,360 A	3,579 A	3,763 A	14,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$14.29 E
2020	\$2.63 E	\$3.14 E	\$3.57 E	\$3.74 E	\$13.06 E
2019	\$2.61 A	\$3.31 A	\$4.02 A	\$3.43 A	\$13.35 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 04/10/2020. The reports text is as of 04/13/2020.

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:

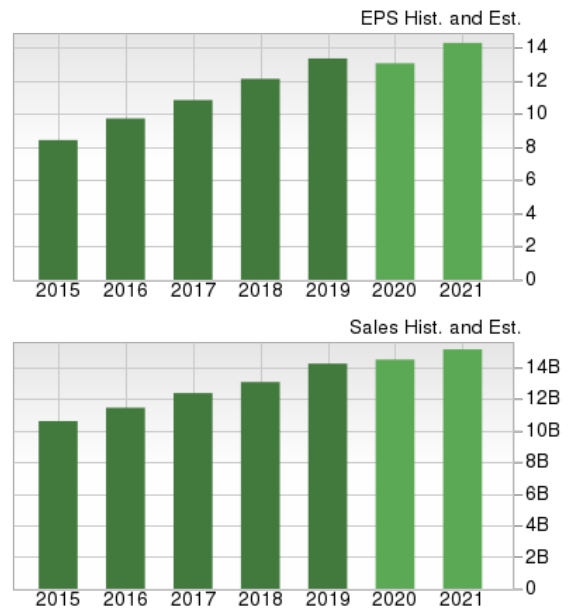
U.S. and Latin America (50.7% of 2019 Net Premiums) – Segmented into traditional and non-traditional businesses, namely individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The non-traditional business also issues fee-based synthetic guaranteed investment contracts such as investment-only, stable-value contracts, to retirement plans.

Canada Operations (9.4%) – 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 (12.8%) – 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 (24%) – Includes life, critical illness, health, disability, superannuation and financial reinsurance.

Corporate and Other (3.1%) – 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 underperformed the industry in a year's time. Nevertheless, 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 11.8% to \$2.6 billion in 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. 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.

Reasons To Sell:

- ▼ Reinsurance Group's expenses have been increasing over the years due to higher claims and other policy benefits, interest credited, operating costs and interest expense. Expenses increased 9.4% year over year 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 17.8% in 2019, the still low-interest rate environment can keep investment income under pressure.
- ▼ Reinsurance Group's return on equity of 7.8% compares unfavorably with industry average of 15.1%. This shows the company's relative inefficiency in managing shareholders' funds.

Increasing expenses weighing on margin expansion, volatility from foreign exchange fluctuation and evolving capital requirements could pose as near-term headwinds for Reinsurance Group.

Last Earnings Report

Reinsurance Group Q4 Earnings Miss, Revenues Beat

Reinsurance Group of America, fourth-quarter 2019 adjusted operating income of \$3.43 per share, missed the Zacks Consensus Estimate by 7.5%. Also, the bottom line declined 0.9% from the year-ago quarter's figure.

Net foreign currency fluctuations had an adverse impact of 1 cent on the bottom line. Reinsurance Group's operating revenues of \$3.8 billion beat the Zacks Consensus Estimate by 4.6%. The top line also improved 10.1% year over year. Net premiums of \$3 billion rose 6.4% year over year. Investment income increased 29.7% from the prior-year quarter to \$677 million. Average investment yield improved 11 basis points to 4.55% due to higher variable investment income.

Total benefits and expenses at Reinsurance Group increased 10.7% year over year to \$3.5 billion. Higher claims and other policy benefits, interest credited, operating costs and interest expense resulted in cost escalation.

Quarterly Segment Update

U.S. and Latin America: Total pre-tax income increased 73.4% to \$189 million in the quarter under discussion.

The Traditional segment reported pre-tax adjusted operating income of \$83 million, down 9.8% year over year, attributable to above-average variable investment income and favorable Group experience. It was offset by adverse individual mortality experience driven by large claims. Net premiums rose 4% from the year-ago quarter to \$1.6 billion.

Asset Intensive segment's pre-tax adjusted operating income improved 22.6% to \$65 million. Capital Solutions business reported pre-tax adjusted operating income of \$26 million, which increased 30% year over year.

Canada: Total pre-tax income decreased 25.5% to \$35 million. Traditional segment's pre-tax adjusted operating income decreased 46% year over year to \$27 million due to modestly unfavorable individual mortality experience. However, forex had an adverse effect of \$5 million on the metric. Net premiums increased 3% to \$276 million. Net foreign currency fluctuations had an adverse impact of \$25 million.

Financial Solutions segment's pre-tax adjusted operating income increased 250% year over year to \$7 million, attributable to income from a new fee-based transaction, while net foreign currency fluctuations had an immaterial effect on pre-tax income and pre-tax adjusted operating income.

Europe, Middle East and Africa (EMEA): Total pre-tax income of \$95 million increased 86.3% from the prior-year quarter's figure.

Pre-tax adjusted operating income of the traditional segment was \$23 million, up 53.3% year over year, primarily due to favorable underwriting experience across most of the region. Net foreign currency fluctuations had an adverse impact of \$1 million. Premiums increased 4% to \$368 million in the quarter. Foreign currency exchange rates had an adverse effect of \$4 million on the metric. Financial Solutions segment delivered pre-tax adjusted operating income of \$73 million, up 62.2% from the year-ago quarter. Net foreign currency fluctuations had an immaterial effect on the metric.

Asia/Pacific: Total pre-tax income of nearly \$25 million increased 25% from the prior-year quarter. Traditional segment's pre-tax adjusted operating income of \$12 million was down 64.7% attributable to loss in Australia that was roughly similar to third-quarter levels. Net foreign currency fluctuations impacted results favorably by \$2 million. Premiums increased 7% to \$659 million, reflecting growth in new and existing treaties in Asia, slightly offset by a reduction in Australia. Foreign currency exchange rates had an adverse effect of \$3 million on net premiums.

Financial Solutions segment's pre-tax adjusted operating income increased 300% to \$8 million, attributable to new business in Asia. Net premiums increased significantly to \$38 million, attributable to new treaties added in 2019.

Corporate and Other: Pre-tax adjusted operating loss was \$40 million, wider than \$33 million in the prior-year period, primarily due to higher incentive compensation accruals and higher costs related to strategic initiatives.

Financial Update

As of Dec 31, 2019, Reinsurance Group had assets worth \$76.7 billion, up 18.9% from the level at 2018 end. As of Dec 31, 2019, Reinsurance Group's book value per share, excluding accumulated other comprehensive income, grew 8.6% year over year to \$135.10. Adjusted return on equity was 10.5%. The company exited the quarter with \$900 million in excess capital.

Capital Deployment

Reinsurance Group deployed capital of \$78 million for in-force and other transactions. The board of directors approved a dividend of 70 cents per share, unchanged from the prior payout. This marked the 11th straight year of double-digit percentage increase. The dividend will be paid out on Feb 27 to shareholders of record as of Feb 6.

Quarter Ending 12/2019

Report Date	Jan 28, 2020
Sales Surprise	4.65%
EPS Surprise	-7.55%
Quarterly EPS	3.43
Annual EPS (TTM)	13.37

Recent News

RGA Launches Digital Health Data (DHD) Risk Scoring Service – Feb 4, 2020

Reinsurance Group introduced a real-time platform known as Digital Health Data (DHD) Risk Scoring service for U.S. life insurers. The DHD solution assesses structured electronic medical record and medical claims data to determine an actionable underwriting risk score.

Valuation

Reinsurance Group shares are down 31.3% in the year-to-date period and down 24.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.8% and 23.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.9% and 17.6%, respectively.

The S&P 500 index is down 13.7% in the year-to-date period and down 4.6% in the past year.

The stock is currently trading at 0.6x trailing 12-month book value, which compares to 1.23x for the Zacks sub-industry, 2.13x for the Zacks sector and 3.69x for the S&P 500 index.

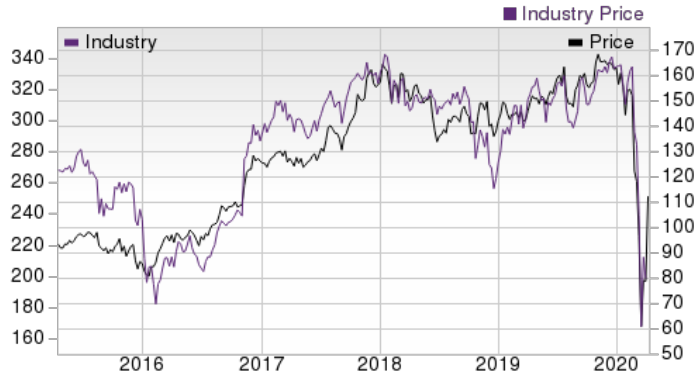
Over the past five years, the stock has traded as high as 1.31x and as low as 0.31x, with a 5-year median of 0.99x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$118 price target reflects 0.63x trailing 12-month book value.

The table below shows summary valuation data for RGA

Valuation Multiples - RGA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.6	1.23	2.13	3.69
	5-Year High	1.31	2.58	2.9	4.55
	5-Year Low	0.31	0.91	1.69	2.84
	5-Year Median	0.99	1.84	2.51	3.63
P/S F12M	Current	0.47	2.28	4.93	3.07
	5-Year High	0.83	10.81	6.65	3.44
	5-Year Low	0.3	2.20	4.93	2.54
	5-Year Median	0.67	3.42	6.03	3.01
P/E F12M	Current	7.81	6.49	13.3	18.11
	5-Year High	15.13	15.13	16.19	19.34
	5-Year Low	4.94	5.62	11.23	15.19
	5-Year Median	11.17	10.73	13.95	17.45

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 253)



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
Sun Life Financial Inc. (SLF)	Neutral
Voya Financial, Inc. (VOYA)	Neutral
Manulife Financial Corp (MFC)	Underperform

Industry Comparison Industry: Insurance - Life Insurance				Industry Peers		
	RGA Neutral	X Industry	S&P 500	BHF Neutral	GL Neutral	LNC Neutral
VGM Score	C	-	-	C	C	C
Market Cap	6.90 B	2.89 B	19.66 B	2.89 B	8.63 B	6.70 B
# of Analysts	2	3	13	4	4	5
Dividend Yield	2.50%	0.28%	2.18%	0.00%	0.93%	4.67%
Value Score	B	-	-	A	C	A
Cash/Price	0.31	0.40	0.06	2.34	0.02	2.00
EV/EBITDA	6.44	2.98	11.72	-1.81	6.30	2.98
PEG Ratio	NA	0.76	2.04	NA	1.79	0.40
Price/Book (P/B)	0.60	0.60	2.66	0.18	1.19	0.35
Price/Cash Flow (P/CF)	8.28	5.68	10.44	3.63	6.68	5.14
P/E (F1)	8.34	7.09	17.51	3.06	11.25	3.61
Price/Sales (P/S)	0.48	0.55	2.12	0.44	1.91	0.39
Earnings Yield	11.66%	14.14%	5.65%	32.67%	8.89%	27.68%
Debt/Equity	0.26	0.13	0.70	0.27	0.18	0.31
Cash Flow (\$/share)	13.53	2.32	7.01	7.58	12.04	6.68
Growth Score	C	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	10.47%	10.18%	10.92%	NA	12.36%	12.58%
Proj. EPS Growth (F1/F0)	-2.17%	-4.61%	-1.14%	233.03%	5.89%	116.76%
Curr. Cash Flow Growth	9.01%	9.74%	5.93%	30.25%	6.55%	-29.24%
Hist. Cash Flow Growth (3-5 yrs)	8.98%	9.46%	8.55%	NA	6.53%	-2.94%
Current Ratio	0.10	0.20	1.24	0.51	0.05	0.20
Debt/Capital	20.44%	11.85%	42.36%	21.19%	15.61%	23.56%
Net Margin	6.08%	6.87%	11.64%	-11.29%	16.80%	5.13%
Return on Equity	7.85%	8.88%	16.74%	6.57%	10.97%	9.91%
Sales/Assets	0.20	0.10	0.54	0.03	0.18	0.05
Proj. Sales Growth (F1/F0)	2.50%	0.00%	0.45%	17.30%	3.79%	3.22%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	7.60%	4.70%	2.48%	7.96%	6.90%	5.31%
1 Week Price Chg	-0.46%	-6.83%	-4.40%	-22.07%	-10.25%	-14.57%
4 Week Price Chg	34.86%	9.63%	11.26%	38.01%	26.06%	46.73%
12 Week Price Chg	-29.83%	-25.11%	-20.02%	-32.35%	-23.03%	-42.08%
52 Week Price Chg	-24.10%	-20.25%	-11.31%	-30.38%	-5.91%	-46.34%
20 Day Average Volume	1,201,756	475,328	3,931,994	2,055,443	864,208	4,412,834
(F1) EPS Est 1 week change	-4.01%	-1.58%	-0.12%	-1.78%	0.43%	-2.33%
(F1) EPS Est 4 week change	-7.24%	-5.86%	-5.78%	-8.87%	-0.21%	-6.15%
(F1) EPS Est 12 week change	-7.90%	-7.53%	-7.64%	-10.10%	-0.38%	-7.16%
(Q1) EPS Est Mthly Chg	-11.92%	-7.26%	-10.13%	-14.07%	-0.37%	-12.43%

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	F
VGM Score	C

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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