

Reinsurance Group(RGA)

\$85.87 (As of 05/19/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Reinsurance Group steadily benefits from a mix of organic and transactional opportunities. Its niche position in reinsurance markets, expansion of international footprint are positives. Significant value embedded in in-force business should generate predictable long-term earnings while product-line expansion is expected to diversify risk. Also, it is poised to benefit from an improving life reinsurance pricing environment, improved premiums and higher investment income. 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 is a concern. Lower return on equity also poses financial risk. First-quarter 2020 bottom line missed estimates.

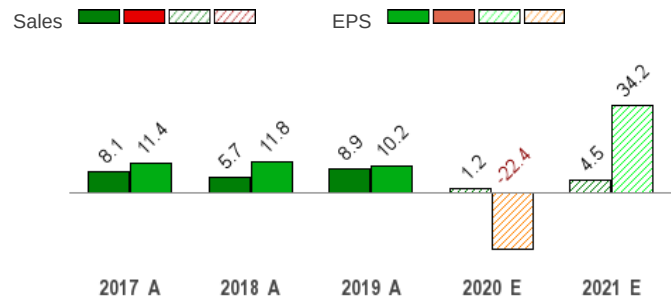
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.08 - \$55.39
20 Day Average Volume (sh)	604,830
Market Cap	\$5.3 B
YTD Price Change	-47.3%
Beta	1.19
Dividend / Div Yld	\$2.80 / 3.3%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Bottom 39% (155 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-46.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-20.7%
Expected Report Date	08/03/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,020 E
2020	3,489 A				14,377 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					\$13.90 E
2020	\$1.41 A	\$2.53 E	\$3.12 E	\$3.41 E	\$10.36 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.

P/E TTM	7.1
P/E F1	8.3
PEG F1	NA
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/19/2020. The reports text is as of 05/20/2020.

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:

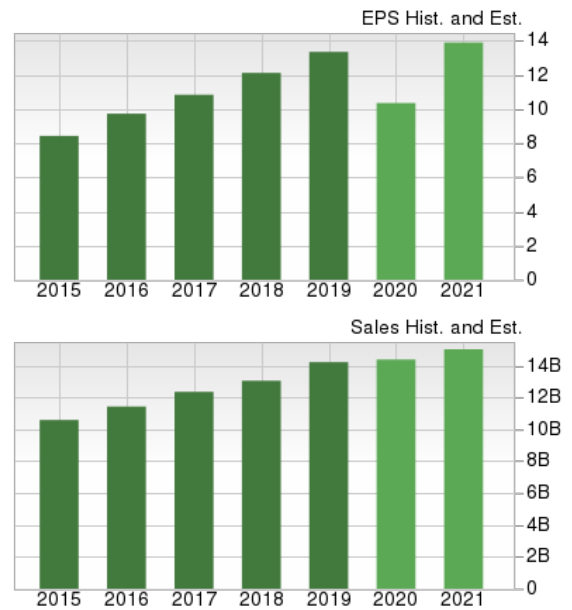
U.S. and Latin America (50.7% of 2019 Net Premiums) – Segmented into traditional and non-traditional businesses, namely individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The non-traditional business also issues fee-based synthetic guaranteed 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. Though premiums decreased slightly in the first quarter of 2020 due to decline in premiums from Australia and limited growth in Asia, premiums from Europe, Middle East and Africa (EMEA) increased 7%. The company believes that demographic trends leading to rapid growth in the insurance market, present abundant growth opportunities in these regions. Moreover, a favorable claims experience in the region should contribute to bottom line.
- ▲ Despite low interest rate, the company's net investment income has been improving over the years. It increased 45% over the last five years with another 2.4% increase in the first quarter of 2020. Management noted that its high-quality investment portfolio is well positioned as it remains diversified across asset classes, sectors, issuers and geography.
- ▲ 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. Though the company bought back \$153 million worth shares in the first quarter of 2020, it suspended such activities for the rest of 2020.
- ▲ Reinsurance Group has a strong capital position, with sufficient cash generation capabilities. Operating cash flow was \$2.2 billion in the first quarter of 2020, up more than six times year over year. Its debt has been decreasing since 2017 with debt to capital improving. However, at the end of the first quarter 2020, debt to capital was 24.3%, up from 24% at the end of 2019. However, times interest earned, a measure to identify the company ability to service debt was 5.7% in the first quarter, down from 7.5% in fourth-quarter 2019.

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.

Nonetheless, the firm's times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, an improving ratio is reassuring for investors. Also, the company exited the quarter with \$700 million in excess capital and cash and cash equivalents increased to \$2.8 billion at first quarter 2020 end from \$1.4 billion at the 2019 end. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations.

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 3% year over year in the first quarter of 2020. Such a rise in expenses has been weighing on margin, which has been fluctuating over the last few years. Net margin in the first quarter contracted 170 basis points year over year. Also, the company expects pre-tax mortality claims to Reinsurance Group in the range of \$400 million and \$500 million due to the pandemic.
- ▼ 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. The company's premium results have been exposed to volatility from foreign exchange fluctuation. The first quarter of 2020 suffered adverse net foreign currency effects of \$33 million on premiums.
- ▼ Reinsurance Group's return on equity of 7.2% compares unfavorably with the industry average of 8.5%. 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 Q1 Earnings Miss, Revenues Up Y/Y

Reinsurance Group reported first-quarter 2020 adjusted operating income of \$1.41 per share, which missed the Zacks Consensus Estimate by 46.4%. The bottom line also declined 46% from the year-ago quarter.

The company's results were negatively impacted by foreign currency fluctuations and hindered growth in Asia. Further, the COVID-19 pandemic affected the results as well.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	NA
EPS Surprise	-46.39%
Quarterly EPS	1.41
Annual EPS (TTM)	12.17

Operational Update

Reinsurance Group's operating revenues of \$3.5 billion improved 2.3% year over year. The upside can be attributed to improved premiums and strong investment income.

Net premiums of \$2.8 billion rose 3% year over year. Investment income increased 2.4% from the prior-year quarter to \$594 million. However, average investment yield deteriorated 41 basis points to 4.08% owing to below-average variable investment income.

Total benefits and expenses at Reinsurance Group increased 3% year over year to \$3.3 billion. Higher claims and other policy benefits, interest credited and interest expense resulted in cost escalation.

Quarterly Segment Update

U.S. and Latin America: The Traditional segment's total pre-tax loss came in at \$62 million in the first quarter against the prior-year quarter's income of \$12 million.

Pre-tax adjusted operating loss amounted to \$55 million against the prior-year quarter's adjusted operating income of \$18 million. The downside can be attributed to lower variable investment income and adverse individual mortality experience on account of higher claims. Net premiums inched up 1% from the year-ago quarter to \$1.4 billion.

Asset Intensive segment's pre-tax adjusted operating income declined 28.3% to \$43 million. Nevertheless, Capital Solutions business reported pre-tax adjusted operating income of \$23 million, which improved 27.8% year over year.

Canada: The Traditional segment's total pre-tax income decreased 54.9% year over year to \$23 million.

Pre-tax adjusted operating income declined 20% year over year to \$36 million, due to modestly favorable individual mortality experience. Further, forex had a favorable effect of \$1 million on the metric. Net premiums increased 2% year over year to \$260 million. Net foreign currency fluctuations had an adverse impact of \$3 million.

Financial Solutions segment's pre-tax income and pre-tax adjusted operating income increased 200% year over year to \$3 million. 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 and pre-tax adjusted operating income of the traditional segment was \$17 million, up 6.3% year over year. The upside can be attributed to favorable underwriting experience primarily in the U.K. Net foreign currency fluctuations had an immaterial effect on pre-tax income and pre-tax adjusted operating income. Premiums increased 7% to \$390 million in the reported quarter. Foreign currency exchange rates had an adverse effect of \$13 million on the metric.

Financial Solutions segment delivered pre-tax adjusted operating income of \$36 million, up 2.9% from the year-ago quarter. Net foreign currency fluctuations had an adverse effect of \$1 million on pre-tax income and pre-tax adjusted operating income.

Asia/Pacific: Total pre-tax income and pre-tax adjusted operating income of the traditional segment was \$24 million, down 35.1% year over year. Net foreign currency fluctuations impacted results adversely by \$1 million. Premiums decreased slightly from the year-ago quarter to \$636 million, due to decline in premiums from Australia and limited growth in Asia. Foreign currency exchange rates had an unfavorable effect of \$16 million on net premiums.

Financial Solutions segment's pre-tax adjusted operating income soared 233.3% year over year to \$10 million, attributable to new business in Asia. Net premiums improved significantly to \$74 million, attributable to addition of new treaties in 2019.

Corporate and Other: Pre-tax adjusted operating loss was \$19 million, narrower than loss of \$20 million in the prior-year period, primarily owing to reduced general expenses.

Financial Update

As of Mar 31, 2020, Reinsurance Group had assets worth \$75.7 billion, up 13.4% from the level at prior-year quarter end.

As of Mar 31, 2020, Reinsurance Group's book value per share, excluding accumulated other comprehensive income, grew 4.9% year over year to \$132.55.

Adjusted return on equity was 9.5%.

The company exited the quarter with \$700 million in excess capital.

Capital Deployment

Reinsurance Group deployed capital of \$55 million for in-force and other transactions.

The company also bought back shares worth \$153 million in the quarter.

The board of directors approved a dividend of 70 cents per share, unchanged from the prior payout. The dividend will be paid out on Jun 4 to shareholders of record as of May 21.

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 32.7% in the year-to-date period and 43.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.9% and 27.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.5% and 21.2%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period but up 3% in the past year.

The stock is currently trading at 0.57x trailing 12-month book value, which compares to 1.15x for the Zacks sub-industry, 2.36x for the Zacks sector and 4.03x 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 \$91 price target reflects 0.6x 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	0.57	1.15	2.36	4.03
	5-Year High	1.31	2.58	2.9	4.56
	5-Year Low	0.31	0.91	1.71	2.83
	5-Year Median	0.99	1.82	2.53	3.65
P/S F12M	Current	0.36	1.74	5.81	3.34
	5-Year High	0.83	10.81	6.7	3.44
	5-Year Low	0.24	1.7	4.99	2.53
	5-Year Median	0.67	3.4	6.05	3.01
P/E F12M	Current	7.29	7.11	15.39	21.51
	5-Year High	15.13	14.9	16.18	21.51
	5-Year Low	4.15	5.62	11.58	15.23
	5-Year Median	11.15	10.40	13.94	17.49

As of 05/19/2020

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



Top Peers

Company (Ticker)	Rec	Rank
American Equity Investment Life Holding Company (AEL)	Neutral	2
Athene Holding Ltd. (ATH)	Neutral	3
Brighthouse Financial, Inc. (BHF)	Neutral	2
Globe Life Inc. (GL)	Neutral	3
Lincoln National Corporation (LNC)	Neutral	3
Manulife Financial Corp (MFC)	Neutral	4
Sun Life Financial Inc. (SLF)	Neutral	4
Voya Financial, Inc. (VOYA)	Neutral	3

Industry Comparison Industry: Insurance - Life Insurance				Industry Peers		
	RGA	X Industry	S&P 500	BHF	GL	LNC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	3	3
VGM Score	A	-	-	C	B	D
Market Cap	5.29 B	2.80 B	19.91 B	2.80 B	7.53 B	6.74 B
# of Analysts	2	4	14	4	4	5
Dividend Yield	3.26%	0.10%	2.14%	0.00%	1.06%	4.59%
Value Score	A	-	-	A	B	C
Cash/Price	0.57	0.40	0.07	5.06	0.05	2.31
EV/EBITDA	4.11	3.60	12.09	4.58	5.43	-0.95
PEG Ratio	NA	1.05	2.68	NA	2.07	NA
Price/Book (P/B)	0.57	0.60	2.75	0.14	1.15	0.41
Price/Cash Flow (P/CF)	6.35	5.62	10.68	3.76	5.88	5.23
P/E (F1)	8.57	8.55	19.96	3.35	10.16	4.13
Price/Sales (P/S)	0.38	0.59	2.01	0.19	1.66	0.38
Earnings Yield	12.05%	11.71%	4.83%	29.80%	9.84%	24.25%
Debt/Equity	0.32	0.15	0.76	0.21	0.21	0.41
Cash Flow (\$/share)	13.53	2.32	7.01	7.58	12.04	6.68
Growth Score	B	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	10.55%	9.43%	10.87%	NA	12.88%	13.10%
Proj. EPS Growth (F1/F0)	-22.43%	-11.67%	-10.48%	225.67%	3.15%	93.11%
Curr. Cash Flow Growth	9.01%	9.95%	5.51%	30.25%	6.55%	-29.24%
Hist. Cash Flow Growth (3-5 yrs)	8.98%	8.98%	8.55%	NA	6.53%	-2.94%
Current Ratio	0.12	0.23	1.28	0.72	0.07	0.23
Debt/Capital	24.27%	12.60%	44.46%	17.60%	17.12%	28.93%
Net Margin	4.35%	6.50%	10.59%	33.37%	16.32%	3.72%
Return on Equity	7.19%	7.19%	16.27%	6.34%	10.86%	10.01%
Sales/Assets	0.19	0.10	0.55	0.07	0.18	0.05
Proj. Sales Growth (F1/F0)	1.86%	0.00%	-2.49%	20.84%	2.32%	1.58%
Momentum Score	B	-	-	F	B	F
Daily Price Chg	-4.90%	-2.58%	-1.38%	-3.91%	-4.31%	-4.15%
1 Week Price Chg	-12.74%	-6.84%	-4.56%	-7.14%	-11.56%	-10.64%
4 Week Price Chg	-10.78%	7.16%	6.08%	42.95%	-3.75%	28.60%
12 Week Price Chg	-38.84%	-24.68%	-13.96%	-31.53%	-31.36%	-33.03%
52 Week Price Chg	-43.72%	-22.57%	-7.85%	-26.46%	-20.35%	-46.31%
20 Day Average Volume	604,830	337,130	2,586,392	1,325,491	784,718	2,266,363
(F1) EPS Est 1 week change	-0.96%	0.00%	0.00%	0.00%	0.00%	-1.97%
(F1) EPS Est 4 week change	-20.71%	-2.88%	-4.62%	-1.99%	-2.42%	-9.00%
(F1) EPS Est 12 week change	-26.46%	-15.65%	-16.58%	-15.62%	-2.79%	-17.84%
(Q1) EPS Est Mthly Chg	-19.59%	-15.44%	-10.10%	-19.33%	-2.73%	-27.49%

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	B
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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