

Reinsurance Group(RGA)

\$90.36 (As of 08/21/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

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. Individual mortality has matured and provides a base for stable earnings and capital generation. Significant value embedded in in-force business should generate predictable long-term earnings. Also, it is poised to benefit from an improving life reinsurance pricing environment, improved premiums and higher investment income. Shares of Reinsurance Group have underperformed its industry in the past year. Higher expenses tend to hinder margin expansion. Also, the company's premium results have been exposed to unfavorable foreign exchange movements. Lower return on equity, which implies inefficient utilization of shareholders' funds, poses financial risk.

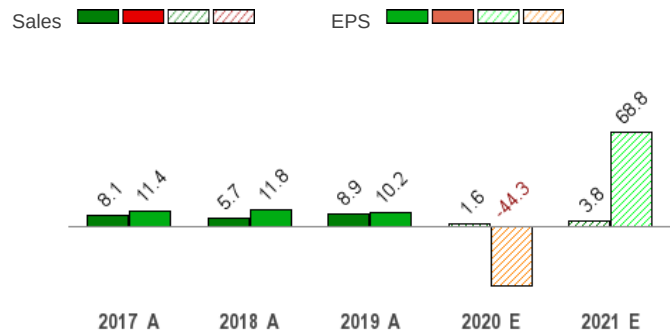
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.08 - \$55.39
20 Day Average Volume (sh)	782,037
Market Cap	\$6.1 B
YTD Price Change	-44.6%
Beta	1.13
Dividend / Div Yld	\$2.80 / 3.1%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Top 32% (81 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	233.3%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	44.9%
Expected Report Date	NA
Earnings ESP	5.8%
P/E TTM	8.8
P/E F1	12.2
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,591 E	3,598 E	3,696 E	3,903 E	14,974 E
2020	3,489 A	3,525 A	3,627 E	3,831 E	14,431 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	\$2.24 E	\$2.91 E	\$3.88 E	\$3.42 E	\$12.56 E
2020	\$1.41 A	\$1.36 A	\$1.74 E	\$2.88 E	\$7.44 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 08/21/2020. The reports text is as of 08/24/2020.

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:

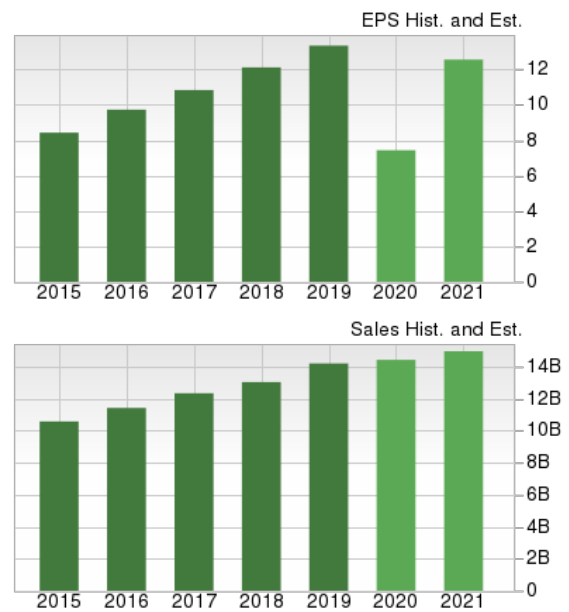
U.S. and Latin America (50.7% of 2019 Net Premiums) – Segmented into traditional and non-traditional businesses, namely individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The non-traditional business also issues fee-based synthetic guaranteed 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 lost 39.4%, wider than the industry's decline of 5.8% 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. However, net premiums declined 1% year over year to \$514 million in the first half of 2020 due to adverse foreign currency effects of \$12 million.
- ▲ 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 from Europe, Middle East and Africa (EMEA) in the Traditional business increased 27% to \$742 million in the first half of 2020. EMEA Traditional results reflect COVID-19 claim costs in the U.K., partially offset by favorable mortality experience in other countries and favorable morbidity experience overall. EMEA Financial Solutions results reflect favorable longevity experience. The company expects some benefit in the second half of the year in this segment. 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 6.4% increase in the first half of 2020 to \$1.2 billion. The upside is primarily attributable to an increase in the average invested asset base. 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 company has hiked dividend double-digit percentage increase for 10 straight years. The company bought back \$153 million worth shares in the first half of 2020. However, on May 6, 2020, it suspended its stock repurchases until further notice. Infact, it has exited the second quarter with \$1.4 billion in excess capital.

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. Total benefits and expenses increased 4.7% year over year to \$6.7 billion in the first half of 2020. Such a rise in expenses has been weighing on margin, which has been fluctuating over the last few years. In the second quarter, net margin contracted 30 bps sequentially and 190 bps year over year. The company expects additional mortality claim costs pretax in the range of \$200 million to \$300 million in the U.S. segment. The company expects United States to be the key driver of COVID-19 mortality claims in the near term. The next largest mortality claim costs are expected to be in the U.K. and Canada, although both are expected to be considerably lower than the United States. It estimates future additional pretax mortality claim costs in the range of \$400 million to \$600 million.
- ▼ Reinsurance Group's debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$3.6 billion, which increased 19.8% from the 2019-end level. Total debt to total capital of 22.2% deteriorated 180 bps from 2019 level and compared unfavorably with the industry's measure of 11.8%. Further, the company's times interest earned of 5.4 in second quarter was lower when compared with the 2019 figure of 7.5 and the industry's measure of 14.6, implying that its earnings are not sufficient to cover interest obligations. Thus, the company's inadequate financial flexibility remains a concern for investors.
- ▼ 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 half of 2020 witnessed adverse net foreign currency effects of \$79 million on premiums. In the second quarter of 2020, net foreign currency fluctuations had an adverse effect of 4 cents per share on adjusted operating income compared with the prior year.
- ▼ Reinsurance Group's return on equity of 5.8% compares unfavorably with the industry average of 11.8%. 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 Q2 Earnings Beat, Revenues Miss

Reinsurance Group of America, Incorporated reported second-quarter 2020 adjusted operating income of \$1.36 per share against the Zacks Consensus Estimate of a loss of \$1.02. However, the bottom line declined 58.9% from the year-ago quarter's figure.

Net foreign currency fluctuations had an adverse impact of 4 cents on the bottom line. Reinsurance Group witnessed increased net premiums and solid results in Asia/Pacific, and Europe, Middle East and Africa (EMEA) segments, offset by soft performance at U.S. and Latin America and Canada segments.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-0.03%
EPS Surprise	233.33%
Quarterly EPS	1.36
Annual EPS (TTM)	10.22

Operational Update

Reinsurance Group's operating revenues of \$3.5 billion improved 2% year over year. However, the top line missed the Zacks Consensus Estimate by 0.02%. Net premiums of \$2.8 billion rose 0.9% year over year. Investment income (excluding spread-based businesses and the value of associated derivatives) decreased 1% from the prior-year quarter to \$305 million. Average investment yield decreased 31 basis points from the prior-year period to 4.07% due to lower variable investment income and an increase in cash and cash equivalents.

Total benefits and expenses at Reinsurance Group increased 6.4% year over year to \$3.4 billion. Higher claims and other policy benefits, interest credited and policy acquisition costs and other insurance expenses resulted in cost escalation.

Quarterly Segment Update

U.S. and Latin America: Total pre-tax adjusted operating loss was \$78 million in the quarter under discussion against pre-tax income of \$148 million in the year-ago quarter. The Traditional segment reported pre-tax adjusted operating loss of \$165 million against the year-ago income of \$59 million, reflecting unfavorable individual mortality experience due to excess claims that were probably COVID-19 related. Net premiums rose 3.1% from the year-ago quarter to \$1.4 billion. Asset Intensive segment's pre-tax adjusted operating income decreased 8.7% to \$63 million. Capital Solutions business reported pre-tax adjusted operating income of \$24 million, which increased 20% year over year, attributable to new business.

Canada: Total pre-tax adjusted operating income declined 10.2% to \$44 million. Traditional segment's pre-tax adjusted operating income decreased 11.1% to \$40 million due to negative impact from COVID-19 claims, partially offset by favorable Group experience. However, forex had an adverse effect of \$1 million on the metric. Net premiums decreased 3.8% to \$254 million due to adverse foreign currency effects of \$9 million. Financial Solutions segment's pre-tax adjusted operating income of \$4 million remained unchanged from the year-ago period. 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 adjusted operating income of \$95 million increased 46.1% from the prior-year quarter's figure. Pre-tax adjusted operating income of the traditional segment was \$16 million, flat year over year. The results were in line with management's expectations as the negative impact from COVID-19 claims in the U.K. were offset by favorable morbidity experience overall and favorable mortality experience in Continental Europe. Net foreign currency fluctuations had a negative impact of \$2 million. Premiums increased 0.3% year over year to \$352 million.

Foreign currency exchange rates adversely impacted net premiums by \$20 million. Financial Solutions segment delivered pre-tax adjusted operating income of \$79 million, up 61.2% from the year-ago quarter, indicating favorable longevity experience. Net foreign currency fluctuations had an adverse impact of \$2 million on the metric.

Asia/Pacific: Total pre-tax adjusted operating income of nearly \$59 million increased 55.3% from the prior-year quarter. Traditional segment's pre-tax adjusted operating income of \$47 million was up 38.2%. Net foreign currency fluctuations had a favorable effect of \$2 million on the metric. Premiums increased 0.2% to \$607 million. Foreign currency exchange rates had an adverse effect of \$12 million on net premiums. Financial Solutions segment's pre-tax adjusted operating income increased 200% to \$12 million, attributable to continued new business growth in Asia. Net premiums decreased 29.5% to \$31 million. Foreign currency exchange rates had a favorable effect of \$1 million on net premiums.

Corporate and Other: Pre-tax adjusted operating loss was \$11 million, narrower than \$33 million in the prior-year period.

Financial Update

As of Jun 30, 2020, Reinsurance Group had assets worth \$80.7 billion, up 5.2% from the level at 2019 end. As of Jun 30, 2020, Reinsurance Group's book value per share, excluding accumulated other comprehensive income, grew 0.2% year over year to \$128.82. Adjusted return on equity was 7.8%, reflecting a contraction of 320 bps year over year. The company exited the quarter with \$1.4 billion in excess capital.

Capital Deployment

The board of directors approved a dividend of 70 cents. The dividend will be paid out on Sep 1, 2020 to shareholders of record as of Aug 14.

Recent News

Reinsurance Group to Divest Dutch Life Insurance Company – Jul 7, 2020

Reinsurance Group will divest its Dutch life insurance company, Leidsche Verzekering Maatschappij N.V. (Leidsche) to De Goudse N.V. (De Goudse) for an undisclosed amount. The company noted that the move will be in the best interest of Leidsche and will enable the latter to execute its long-term growth strategy in the protection market. Reinsurance Group also stated that the divestment of Leidsche will help it serve its clients in its reinsurance business in the Netherlands better.

Valuation

Reinsurance Group shares are down 44.6% in the year-to-date period and 39.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 19.8% and 17.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.8% and 7%, respectively.

The S&P 500 index are up 5.4% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 0.44x forward 12-months earnings, which compares to 2.49x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.59x for the S&P 500 index.

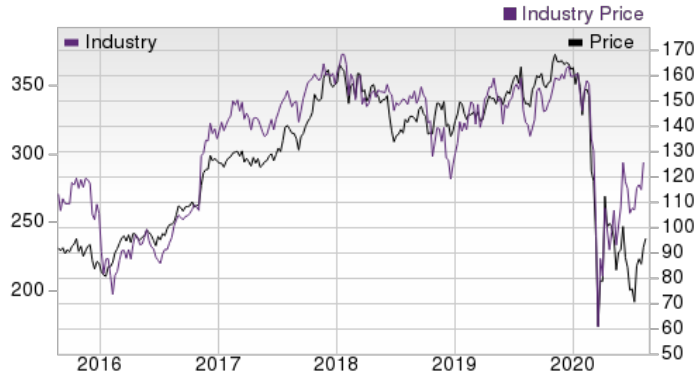
Over the past five years, the stock has traded as high as 1.31x and as low as 0.31x, with a 5-year median of 0.98x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 0.47x trailing 12-month book value.

The table below shows summary valuation data for RGA

Valuation Multiples -RGA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.44	2.49	2.47	4.59
	5-Year High	1.31	2.6	2.91	4.59
	5-Year Low	0.31	0.91	1.72	2.83
	5-Year Median	0.98	1.82	2.53	3.75
P/S F12M	Current	0.42	1.83	6.23	3.71
	5-Year High	0.83	10.81	6.67	3.71
	5-Year Low	0.24	1.69	4.97	2.53
	5-Year Median	0.67	3.29	6.06	3.05
P/E F12M	Current	8.41	7.97	16.4	22.85
	5-Year High	15.13	14.89	16.4	22.85
	5-Year Low	4.15	5.51	11.6	15.25
	5-Year Median	11.15	10.23	14.26	17.58

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Manulife Financial Corp (MFC)	Outperform	2
American Equity Investment Life Holding Company (AEL)	Neutral	4
Athene Holding Ltd. (ATH)	Neutral	3
Brighthouse Financial, Inc. (BHF)	Neutral	3
Globe Life Inc. (GL)	Neutral	3
Lincoln National Corporation (LNC)	Neutral	3
Sun Life Financial Inc. (SLF)	Neutral	2
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)	3	-	-	3	3	3
VGM Score	C	-	-	B	B	C
Market Cap	6.14 B	4.99 B	23.62 B	2.65 B	8.60 B	6.75 B
# of Analysts	3	4	14	3	4	5
Dividend Yield	3.10%	0.08%	1.65%	0.00%	0.93%	4.58%
Value Score	A	-	-	A	B	B
Cash/Price	0.68	0.58	0.07	3.96	0.07	1.57
EV/EBITDA	4.09	3.35	13.29	3.92	5.89	1.38
PEG Ratio	NA	0.94	3.03	NA	NA	NA
Price/Book (P/B)	0.49	0.62	3.11	0.13	1.10	0.33
Price/Cash Flow (P/CF)	6.68	6.01	12.69	3.76	6.71	5.23
P/E (F1)	12.49	10.90	21.51	4.05	11.73	4.44
Price/Sales (P/S)	0.43	0.63	2.43	0.18	1.87	0.40
Earnings Yield	8.23%	9.20%	4.46%	24.70%	8.53%	22.51%
Debt/Equity	0.28	0.16	0.76	0.19	0.16	0.32
Cash Flow (\$/share)	13.53	3.00	6.93	7.58	12.04	6.68
Growth Score	D	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	9.13%	9.13%	10.44%	NA	13.09%	12.28%
Proj. EPS Growth (F1/F0)	-44.29%	-15.09%	-5.53%	203.95%	2.00%	79.50%
Curr. Cash Flow Growth	9.01%	20.42%	5.20%	30.25%	6.55%	-29.24%
Hist. Cash Flow Growth (3-5 yrs)	8.98%	8.98%	8.52%	NA	6.53%	-2.94%
Current Ratio	0.15	0.25	1.33	0.66	0.08	0.21
Debt/Capital	22.16%	13.58%	44.50%	15.95%	13.95%	24.52%
Net Margin	3.99%	6.17%	10.13%	33.37%	15.84%	1.21%
Return on Equity	5.79%	6.56%	14.67%	4.55%	10.31%	8.21%
Sales/Assets	0.18	0.11	0.51	0.07	0.18	0.05
Proj. Sales Growth (F1/F0)	2.24%	0.00%	-1.54%	16.51%	4.45%	1.90%
Momentum Score	D	-	-	A	B	B
Daily Price Chg	-1.81%	-0.82%	-0.15%	-3.10%	-0.53%	-2.32%
1 Week Price Chg	3.71%	2.80%	1.09%	4.72%	3.39%	1.20%
4 Week Price Chg	1.95%	1.95%	1.64%	-3.57%	0.51%	-7.10%
12 Week Price Chg	-2.77%	9.61%	6.72%	-7.66%	4.74%	-11.17%
52 Week Price Chg	-39.72%	-8.20%	1.00%	-20.06%	-8.59%	-35.64%
20 Day Average Volume	782,037	182,183	1,873,576	660,885	462,184	1,691,033
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	44.89%	4.07%	1.79%	-15.45%	3.26%	-8.00%
(F1) EPS Est 12 week change	-24.93%	0.39%	3.35%	-15.91%	-1.11%	-8.99%
(Q1) EPS Est Mthly Chg	-2.26%	2.11%	0.42%	1.46%	4.92%	-1.75%

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	D
Momentum Score	D
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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