Retirement Suitability Score

F

Unsuitable

Aegon N.V. (AEG)

Updated October 4th, 2018 by Nick McCullum

Key Metrics

Current Price:	$6.54	**5 Year CAGR Estimate:**	20.2%	**Volatility Percentile:**	80.6%
Fair Value Price:	$11.20	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	78.7%
% Fair Value:	58%	**5 Year Valuation Multiple Estimate:**	11.2%	**Valuation Percentile:**	99.0%
Dividend Yield:	5.0%	**5 Year Price Target**	$13.60	**Total Return Percentile:**	96.9%

Overview & Current Events

Aegon NV is a financial holding company based in the Netherlands. The company provides a wide range of financial services to clients, including insurance, pensions, and asset management. Aegon has five core operating segments: Americas, Europe, Asia, Asset Management, and Holding and Other Activities. The firm's most widely-recognized brand is Transamerica, which Aegon acquired in 1999. United States investors can initiate a position in Aegon through American Depository Receipts that trade on the New York Stock Exchange under the ticker AEG with a market capitalization of $13.9 billion.

Aegon reports financial results on a semiannual basis. Our most recent insight into the company's financial performance came with the publication (8/16/18) of the company's fiscal 2018 interim financial results, which covers the first six months of the year. Through the first half of fiscal 2018, Aegon's underlying earnings increased by 2%, while constant-currency underlying earnings rose by 10%. This robust performance was driven by expense savings, higher margins, and particularly strong growth in the Asia segment. The company also benefited from a one-time reduction in its consolidated tax rate due to lower corporate tax rates in the United States. Aegon's earnings release was seen as modestly positive as shares rose by more than 2% on the first trading day following its publication.

More recently, Aegon announced (9/19/18) that the company has decided to repurchase 24,133,950 common shares to offset the dilutive effect of Aegon's interim stock dividend. Each year, Aegon shareholders have the ability to elect to receive their dividends in cash or in stock. This year, those who elected to receive the interim dividend in stock (which amounted to 44% of the company's shareholder base) received one Aegon common share for each 37 common shares already owned. The repurchased shares will be held as treasury stock and will be used to pay future stock dividends.

Looking ahead, Aegon's next interim financial results are scheduled to be published on February 14th, 2019. Unlike most companies in our investment universe, Aegon's research reports will be published on a semiannual basis to match its earnings calendar.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2024
EPS	-$0.29	$0.93	$1.40	$0.28	$1.04	$0.62	$0.42	$0.12	$0.19	$1.31	***$1.40***	***$1.70***
DPS	$0.00	$0.00	$0.00	$0.07	$0.04	$0.14	$0.18	$0.13	$0.12	$0.13	***$0.13***	***$0.15***
Shares	1507	1587	1707	1852	1907	2401	2674	2685	2623	2617	***2650***	***3200***

Aegon has not generated consistent earnings growth over full economic cycles. In large part, this is due to a rising share count. Indeed, Aegon's share count has nearly doubled over the last decade. We expect this trend to continue, presenting a meaningful headwind to per-share growth. We expect Aegon to generate about 4% annualized growth in earnings-per-share over long periods of time. Next year, the company is likely to earn about $1.40 per share. Applying a 4% growth rate to our 2018 earnings-per-share estimate allows us to calculate a 2023 per-share earnings target of $1.70.

From a dividend perspective, investors should note that Aegon declares a separate dividend each year depending on the firm's financial performance. The impact of this dividend policy can be seen in 2008, 2009 and 2010, when the company failed to declare dividends on its common shares. Moreover, the insurance firm only pays its dividend twice per year, and its dividends are declared and paid in Euros (which introduces some foreign exchange risk). Accordingly, the firm is not an attractive security for investors looking to generate a consistent dividend income stream from their investment portfolios. The Netherlands imposes a dividend withholding tax of 15% on foreigners, but is expected to eliminate its dividend withholding tax by 2020. We have not included the effects of the dividend withholding tax in our analysis.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	9.9	N/A	6.1	8.2	13.3	10.1	14.8	23.2	34.8	16.4	***4.7***	***8.0***
Avg. Yld.	9.1%	10.6%	N/A	N/A	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	***5.0%***	***3.0%***

Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. Today, the company is trading at a price-to-earnings ratio of 4.7. We believe that fair value for Aegon is a price-to-earnings ratio of at least 8. If the company's valuation expands to a price-to-earnings ratio of 8 over the next 5 years, this will add 11.2% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

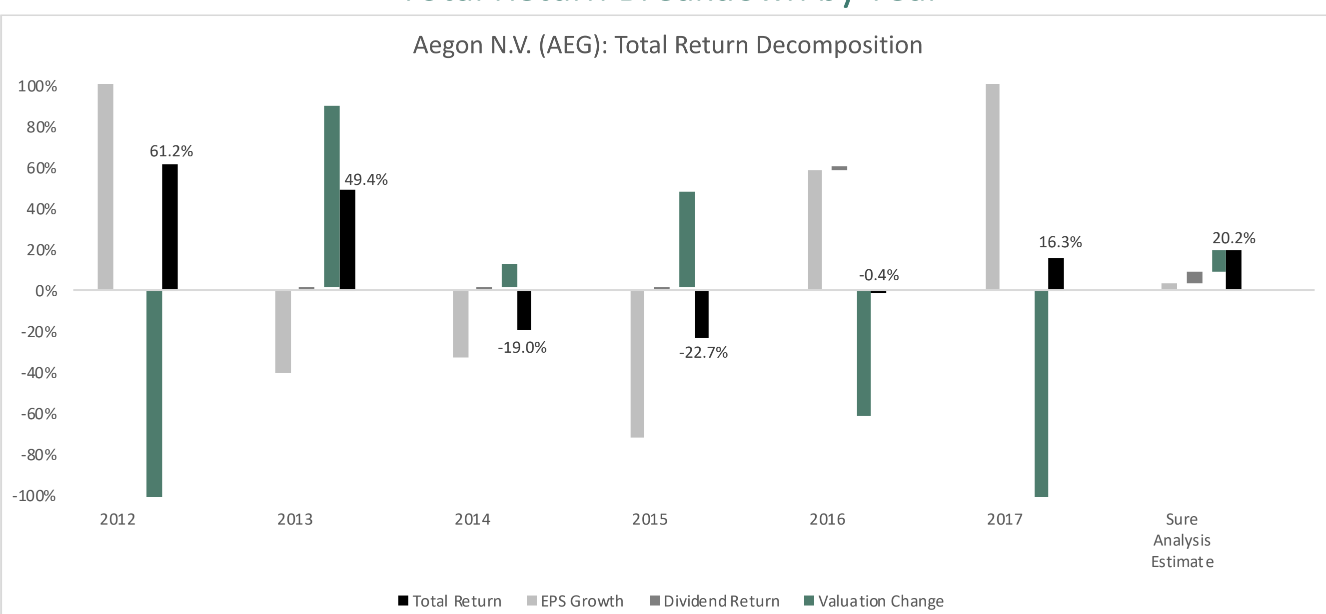
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	95.2%	93.7%	93.0%	92.5%	92.8%	93.5%	93.5%	93.7%	94.3%	93.9%	***92.5%***	***92.5%***
Int. Cov.	-1.0	-0.1	5.5	2.9	4.9	4.3	3.5	-0.2	2.8	6.8	***4.0***	***4.0***
Payout	N/A	N/A	N/A	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	***9.3%***	***8.8%***
Std. Dev.	78.6%	88.0%	34.7%	48.6%	38.6%	20.7%	16.8%	25.4%	41.8%	19.4%	***25.0%***	***25.0%***

Aegon's high level of debt is inherent to its business model. The insurance float held on its balance sheet will naturally result in large amounts of total liabilities. Separately, Aegon's historical interest coverage has been spotty and its stock price standard deviation is far higher than average when compared to the other insurers in our investment universe.

Final Thoughts & Recommendation

Between ~4% business growth, its 5% dividend yield, and significant potential for valuation expansion, Aegon appears capable of delivering total returns of approximately 20% per year moving forward. The company earns a strong buy recommendation from Sure Dividend at current prices. Aegon earns a D rating for Retirement Suitability because of its short dividend history and significant historical stock price drawdowns.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.