MetLife Inc. (MET)

Updated February 7th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	10.9%	**Volatility Percentile:**	58.0%
Fair Value Price:	$50	**5 Year Growth Estimate:**	3.8%	**Momentum Percentile:**	47.5%
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.2%	**Growth Percentile:**	20.8%
Dividend Yield:	3.9%	**5 Year Price Target**	$61	**Valuation Percentile:**	70.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	54.1%

Overview & Current Events

MetLife is one of the world's leading financial services companies, providing insurance, annuities, employee benefits and asset management to help its individual and institutional customers navigate their changing world. Founded in 1868 as Metropolitan Life, today MetLife has operations in more than 40 countries and holds leading market positions in the U.S. Japan, Latin America, Asia, Europe and the Middle East, with about 60% of its profits generated in the U.S. last year. The $44 billion market cap company employs about 49,000 people.

On February 6th, 2018 MetLife released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter MetLife reported revenue of $15.66 billion, a 1% decline compared to Q4 2017. Adjusted earnings came in at $1.34 billion ($1.35 per share) compared to $678 million ($0.64 per share) in the year ago period. For the year MetLife generated revenue of $67.94 billion against $62.31 billion in 2017. Adjusted earnings came in at $5.46 billion ($5.39 per share) compared to $4.24 billion ($3.93 per share) in 2017. MetLife's book value per share equaled $51.53, down 5% from $54.24 at 2017's yearend.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.87	$4.38	$4.45	$5.28	$5.63	$5.74	$4.86	$4.59	$3.92	$5.39	***$5.60***	***$6.75***
DPS	$0.74	$0.74	$0.74	$0.74	$1.01	$1.33	$1.48	$1.58	$1.60	$1.62	***$1.70***	***$2.02***
Shares	819	986	1,058	1,092	1,122	1,132	1,098	1,096	1,044	1,014	***1,000***	***900***

MetLife has put together a reasonable, but unspectacular earnings record in the last decade. From 2008 through 2018 earnings-per-share grew by an average compound rate of 3.9% per annum. There were four separate instances of year-over-year declines. Still, the company has bounced back as of late.

Above average growth is not expected in the insurance business, as competition is fierce and the products being offered are commodity-like in nature. Moreover, Insurers can get in trouble by "chasing" growth if it means underpricing policies to gain share. The liabilities are not known for years, meaning that you can grow quickly in the short-term, but be worse off for it in the long-term. Our preference is a slow and steady approach and our expectation is continued growth in-line with the company's past.

That being said, MetLife does have a few growth avenues in the way of general economic growth, international operations boosting its growth profile, and rising interest rates. Additionally, share repurchases make sense given the below average valuation which can enhance bottom-line improvement.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.8	9.2	8.8	6.5	7.9	9.2	10.5	9.7	13.3	7.6	***7.7***	***9.0***
Avg. Yld.	2.4%	1.8%	1.9%	2.2%	2.3%	2.5%	2.9%	3.5%	3.1%	3.9%	***4.0%***	***3.3%***

Over the past decade shares of MetLife have traded hands with an average P/E ratio of around 9 times earnings, with a range of 5 to 13. We believe this midpoint is a reasonable starting place, considering the conservative growth profile of the firm coupled with a typical valuation in the industry. As such, the current offering price allows for the potential of reasonable gains from an uptick in valuation.

MetLife's dividend should add nicely to shareholder returns, given the 3.9% starting yield and runway for future growth. Note that MetLife held its dividend steady from 2007 through 2012 and recently held the payment at $0.40 for eight quarters in 2016 through 2018, before it bumped it up 5% last year. Future dividend growth may be lumpy, but we do anticipate year-over-year increases from this point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	26%	17%	17%	14%	18%	23%	30%	34%	41%	30%	***30%***	***30%***

While MetLife is the largest U.S. life insurer, the industry does not typically exhibit competitive advantages as the products are commodity-like in nature. Consumers are not willing to pay a material premium to get the same policy. That being said, MetLife's long tradition and experience in the industry, along with a proven track record of intelligent, slow growth is encouraging.

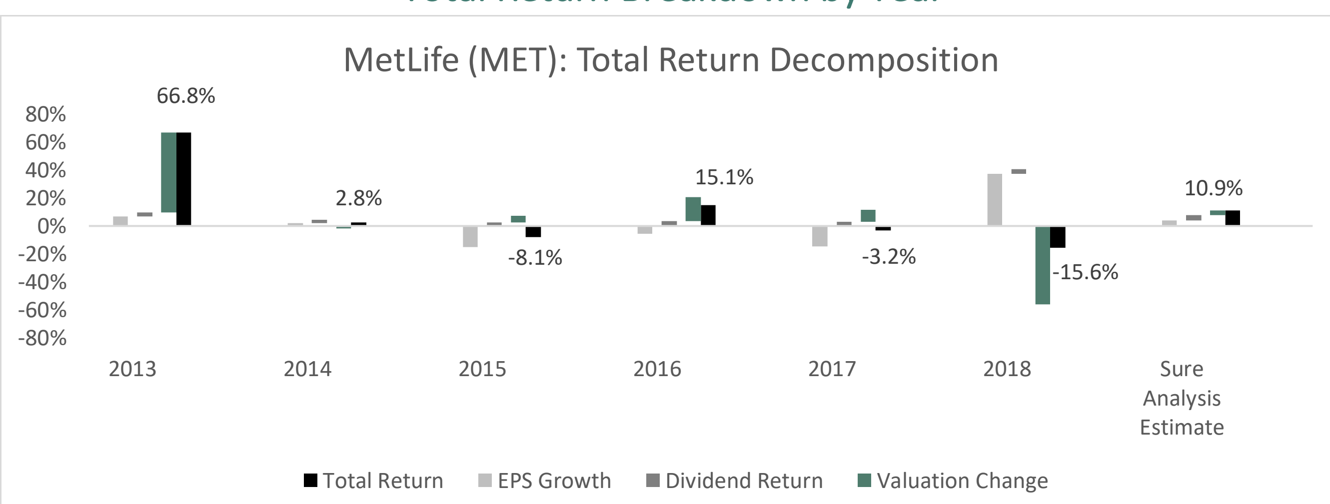
During the last recession MetLife posted earnings-per-share of $3.67, $2.87 and $4.38 during the 2008 through 2010 stretch. In addition, the dividend was held steady during this time. We believe this typifies what an investor might expect when the next recession comes along – a sizable hit to short-term earnings, but the ability to bounce back and keep paying the dividend.

We believe MetLife's historical dividend payout ratio management has been prudent – freezing the dividend in lesser times and accelerating growth when there is ample room to do so. However, we do note that the payout ratio has inched up in the last half decade or so.

Final Thoughts & Recommendation

MetLife is not the type of security that is going to "wow" you when it comes to growth prospects. Indeed, it's in an industry where it can be intelligent to stick to prudent underwriting and let your competitors underprice you. However, the below average valuation and above average (and well-covered) dividend, make for an interesting security. From this point the company doesn't need much improvement to generate solid returns for investors. We rate MetLife as a buy at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	41057	52247	70241	68150	68199	73316	61343	60787	62308	67941
SG&A Exp.	8574	5363	7773	8076	7426	7185	7302	6866	6724	N/A
D&A Exp.	520	585	679	596	714	713	693	652	795	N/A
Net Profit	-2246	2667	6423	1324	3368	6309	5373	850	4010	5123
Net Margin	-5.5%	5.1%	9.1%	1.9%	4.9%	8.6%	8.8%	1.4%	6.4%	7.5%
Free Cash Flow	3803	7985	10273	17160	16131	16376	14052	14774	12283	N/A
Income Tax	-2015	1110	2793	128	661	2465	1590	693	-1470	1179

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	539.31	730.91	796.23	836.78	885.30	902.34	877.93	898.76	719.89	687.54
Cash & Equivalents	10112	13046	10461	15738	7585	10808	12752	12651	12701	15821
Acc. Receivable	16752	19830	22481	21634	21859	22244	22702	15445	18423	19644
Goodwill & Int.	5047	11781	11935	9953	10542	9872	9477	9220	9590	9422
Total Liab. ($B)	505.82	681.79	738.34	771.94	823.20	829.78	809.51	831.06	661.02	634.58
Long-Term Debt	22620	36380	27533	22354	22021	19579	21317	19852	19307	16244
Total Equity	33120	48624	57518	64452	61552	72052	67949	67531	58676	52741
D/E Ratio	0.68	0.75	0.48	0.35	0.36	0.27	0.31	0.29	0.33	0.31

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.4%	0.4%	0.8%	0.2%	0.4%	0.7%	0.6%	0.1%	0.5%	0.7%
Return on Equity	-7.9%	6.5%	12.1%	2.2%	5.3%	9.4%	7.7%	1.3%	6.4%	9.2%
ROIC	-4.7%	3.8%	7.5%	1.5%	3.9%	7.2%	5.9%	1.0%	4.8%	7.0%
Shares Out.	819	986	1,058	1,092	1,122	1,132	1,098	1,096	1,044	1,014
Revenue/Share	50.16	58.73	65.76	63.29	61.10	64.17	54.37	54.84	57.77	67.01
FCF/Share	4.65	8.98	9.62	15.94	14.45	14.33	12.45	13.33	11.39	N/A

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.