Aegon N.V. (AEG)

Updated February 26th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$5.29	**5 Year CAGR Estimate:**	15.8%	**Volatility Percentile:**	83.2%
Fair Value Price:	$6.83	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	14.6%
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.2%	**Growth Percentile:**	22.2%
Dividend Yield:	6.6%	**5 Year Price Target**	$8.24	**Valuation Percentile:**	88.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	88.8%

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 $10.7 billion.

Aegon reports financial results on a semiannual basis. In mid-February, Aegon reported (2/14/19) financial results for the second half of fiscal 2018. In the second half of the year, Aegon's underlying earnings decreased 8%, as lower earnings from retirement plans in the U.S. more than offset the increased revenues and earnings in Europe. In the U.S., underlying earnings fell 16% over the prior year's period. Despite the weak business performance in the second half of the year, Aegon managed to grow its earnings-per-share from $0.86 in 2017 to $1.02 in 2018 and raised the full-year dividend from $0.33 to $0.35.

Looking ahead, Aegon's next interim financial results are expected to be published in mid-August. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.93	$1.40	$0.28	$1.04	$0.62	$0.42	$0.12	$0.19	$0.86	$1.02	***$0.85***	***$1.03***
DPS	$0.00	$0.00	$0.13	$0.26	$0.30	$0.29	$0.27	$0.29	$0.30	$0.33	***$0.35***	***$0.40***
Shares	1587	1707	1852	1907	2401	2674	2685	2623	2617	2620	***2650***	***3000***

Aegon has a poor performance record, as it 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, we expect the company to earn about $0.85 per share, mostly due to weak momentum at the beginning of the year. Applying a 4% growth rate to our 2018 earnings-per-share estimate allows us to calculate a 2024 per-share earnings target of $1.03.

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 who choose to receive their dividends in cash, 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.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	N/A	6.1	8.2	13.3	10.1	14.8	23.2	34.8	16.4	6.2	***6.2***	***8.0***
Avg. Yld.	10.6%	N/A	N/A	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	***6.6%***	***4.9%***

Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. The stock is currently trading at a price-to-earnings ratio of 6.2. We believe that fair value for Aegon is a price-to-earnings ratio of at least 8.0. If the stock's valuation expands to a price-to-earnings ratio of 8.0 over the next five years, the stock will enjoy a 5.2% annualized gain thanks to the expansion of its price-to-earnings ratio during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

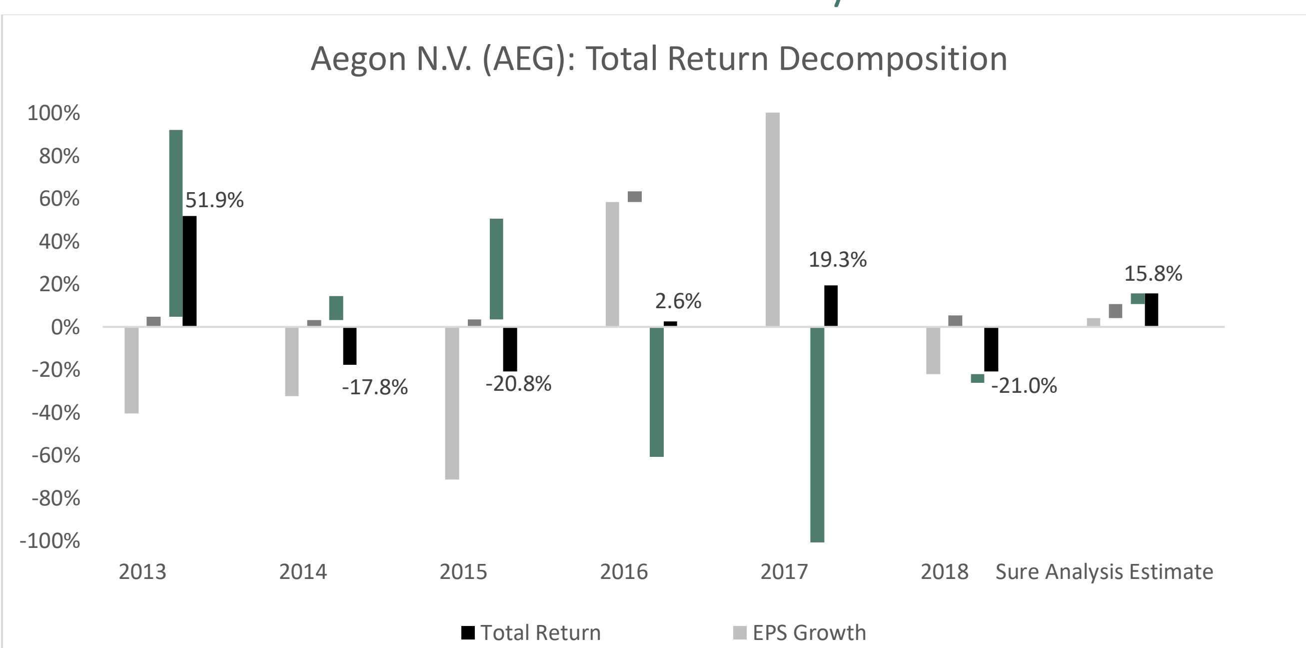
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	32.4%	***41.2%***	***38.8%***

Aegon faces intense competition in its business and hence it has a remarkably volatile performance record. It is thus evident that the company lacks a meaningful competitive advantage. The currency swings introduce additional volatility to the earnings and the dividends of the company for U.S. investors. On the other hand, foreign investors may be attracted by the generous dividend yield, which currently stands at 6.6%. Management targets to distribute 45%-55% of underlying earnings as dividends to shareholders.

Final Thoughts & Recommendation

Thanks to ~4% business growth, its 6.6% dividend yield and significant potential for valuation expansion, Aegon can deliver a 15.8% average annual return over the next five years. The company thus earns a buy recommendation from Sure Dividend at current prices. With that said, the company has a markedly volatile performance record and its stock price is much more volatile than the broad market. As a result, the stock is suitable only for risk-loving investors, who can stomach wild stock price swings. There's a high likelihood the dividend would be cut or eliminated in a recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	11046	64717	65187	44320	59885	64317	61619	41978	58838	65742
SG&A Exp.	8966	8343	4418	4688	3926	4201	4248	3948	3940	4143
D&A Exp.	2482	2393	2108	2302	1593	1343	1255	1686	1337	884
Net Profit	-1588	284	2332	1233	2098	1309	1017	-479	484	2796
Net Margin	-14.4%	0.4%	3.6%	2.8%	3.5%	2.0%	1.7%	-1.1%	0.8%	4.3%
Free Cash Flow	1799	-10064	1494	3034	-1705	-2788	5342	857	3573	506
Income Tax	31	-932	204	71	478	266	201	-92	190	74

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	403.91	427.05	441.95	447.37	480.15	485.87	515.73	454.17	449.74	474.99
Cash & Equivalents	14286	6169	6957	10497	12683	12011	12901	11825	15116	16451
Acc. Receivable	N/A	9757	10523	6132	N/A	7265	N/A	5680	9018	9707
Goodwill & Int.	7581	6591	5797	4255	3314	3137	2521	2078	1924	1959
Total Liab. ($B)	384.68	400.04	410.80	414.03	445.68	454.50	482.07	425.47	424.01	446.07
Accounts Payable	N/A	N/A	N/A	4467	N/A	4674	N/A	2774	4449	5493
Long-Term Debt	7518	10704	11329	13342	17743	16845	18299	14744	15017	17523
Total Equity	19133	26888	31047	33315	34458	31358	33652	28689	25708	28891
D/E Ratio	0.39	0.40	0.36	0.40	0.51	0.54	0.54	0.51	0.58	0.61

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.4%	0.1%	0.5%	0.3%	0.5%	0.3%	0.2%	-0.1%	0.1%	0.6%
Return on Equity	-6.6%	1.2%	8.0%	3.8%	6.2%	4.0%	3.1%	-1.5%	1.8%	10.2%
ROIC	-4.9%	0.9%	5.8%	2.8%	4.2%	2.6%	2.0%	-1.0%	1.1%	6.4%
Shares Out.	1587	1707	1852	1907	2401	2674	2685	2623	2617	2620
Revenue/Share	7.33	40.78	38.19	23.93	31.40	26.79	23.04	15.63	22.43	25.12
FCF/Share	1.19	-6.34	0.88	1.64	-0.89	-1.16	2.00	0.32	1.36	0.19

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