Aegon N.V. (AEG)

Updated August 26th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$3.75	**5 Year CAGR Estimate:**	17.3%	**Volatility Percentile:**	76.8%
Fair Value Price:	$4.81	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	11.3%
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.0%	**Growth Percentile:**	15.4%
Dividend Yield:	9.3%	**5 Year Price Target**	$5.58	**Valuation Percentile:**	84.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	88.6%

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 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 cap of $7.7 billion.

Aegon reports financial results on a semiannual basis. In mid-August, Aegon reported (8/15/19) financial results for the first half of fiscal 2019. During this period, Aegon's underlying earnings decreased 5% and currency-adjusted earnings decreased 9%, primarily due to lower fee income from retirement plans and variable annuities in the U.S., as well as investments in growth initiatives. The company also posted fair value losses of €394 million due to higher insurance provisions in the Netherlands. Due to disappointing performance, we have lowered our forecast for this year's earnings-per-share from $0.85 to $0.80. The stock fell 7% after its earnings release and is now trading at a 3-year low.

Aegon's next interim financial results are expected to be published in mid-February. 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	***$0.80***	***$0.93***
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[1]	1,252	1,346	1,461	1,504	1,894	2,109	2,116	2,062	2,056	2,050	***2,052***	***2,400***

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. Due to the weak record and the poor business momentum, we have lowered our expected EPS growth rate of Aegon for the next 5 years from 4% to 3%.

Aegon declares a separate dividend each year depending on the firm's financial performance. The impact of this dividend policy can be seen in 2008-2010, when the company failed to declare dividends. Moreover, Aegon 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 we have not included the effects of the dividend withholding tax in our analysis.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	6.1	8.2	13.3	10.1	14.8	23.2	34.8	16.4	6.2	***4.7***	***6.0***
Avg. Yld.	10.6%	---	---	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	***9.3%***	***7.2%***

1. In millions.

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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Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. Due to its 25% fall in August, the stock is currently trading at a markedly low price-to-earnings ratio of 4.7. As a significant portion of Aegon's business is in the U.S., the fall partly resulted from the excessive pressure on all U.S. financial stocks due to more dovish outlook for interest rates. Moreover, the market was alarmed by the aforementioned €394 million losses due to insurance provisions in the Netherlands. This amount is 5% of the current market cap and the market fears that more provisions will show up in the near future. Furthermore, as some shareholders receive their dividend in shares, the low stock price results in greater dilution and thus creates a vicious cycle for the stock price. Aegon also announced the change of its CEO in August, after 11 years. This has somewhat increased uncertainty over future results. Due to all these reasons, the negative business momentum and the unreliable performance record of the company, we have lowered our fair value price-to-earnings ratio of Aegon from 8.0 to 6.0. If the stock's valuation expands to a price-to-earnings ratio of 6.0 over the next five years, the stock will enjoy a 5.0% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

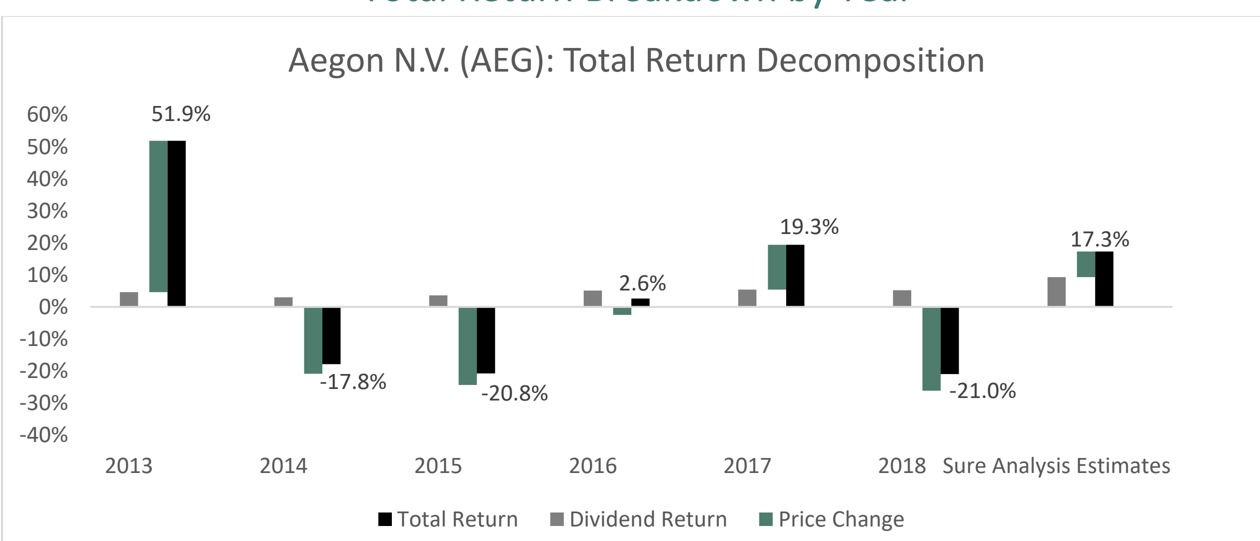
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	32.4%	***43.8%***	***43.0%***

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 9.3%. Management targets to distribute 45%-55% of underlying earnings as dividends to shareholders.

Final Thoughts & Recommendation

Due to its poor business performance, Aegon is trading at a 3-year low. If the company recovers, it can offer a 17.3% average annual return over the next five years from its suppressed current price. However, the company has a markedly volatile performance record, poor business momentum and its stock price is much more volatile than the broad market. As a result, the stock is a cautious buy only for risk aware investors, who can stomach wild stock price swings. There's a high likelihood that 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.