Aegon N.V. (AEG)

Updated February 17th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$4.12	**5 Year CAGR Estimate:**	12.6%	**Market Cap:**	$8.2 B
Fair Value Price:	$4.80	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	5/19/2020
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	6/19/2020
Dividend Yield:	8.5%	**5 Year Price Target**	$5.60	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.2%

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 $8.2 billion.

Aegon reports financial results on a semiannual basis. In mid-February, Aegon reported (2/13/20) financial results for the second half of fiscal 2019. During this period, Aegon's underlying earnings decreased -8% due to the impact of low interest rates on its business and net outflows in its US retirement and annuity businesses. Due to these headwinds, the company posted a return on equity of 9.5%, which was lower than its target of 10.0%. In the full year, the picture was similar, as the underlying earnings fell -6%, primarily for the aforementioned reasons.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.40	$0.28	$1.04	$0.62	$0.42	$0.12	$0.19	$0.86	$1.02	$0.90	***$0.80***	***$0.93***
DPS	---	$0.13	$0.26	$0.30	$0.29	$0.27	$0.29	$0.30	$0.33	$0.33	***$0.35***	***$0.40***
Shares[1]	1,346	1,461	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050	***2,050***	***2,100***

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. This trend may continue, presenting a meaningful headwind to per-share growth. Due to the weak record and the poor business momentum, we expect only 3% earnings-per-share growth over the next five years.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	6.1	8.2	13.3	10.1	14.8	23.2	34.8	16.4	6.2	5.2	***5.2***	***6.0***
Avg. Yld.	---	---	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	7.0%	***8.5%***	***7.1%***

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 45% fall in less than two years, the stock is currently trading at a markedly low price-to-earnings ratio of 5.2. As a significant portion of Aegon's business is in the U.S., the slump partly resulted from the suppressed interest rates in the U.S. Moreover, 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 assume a fair value price-to-earnings ratio of 6.0 for Aegon. If the stock reaches a price-to-earnings ratio of 6.0 over the next five years, it will enjoy a 3.1% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

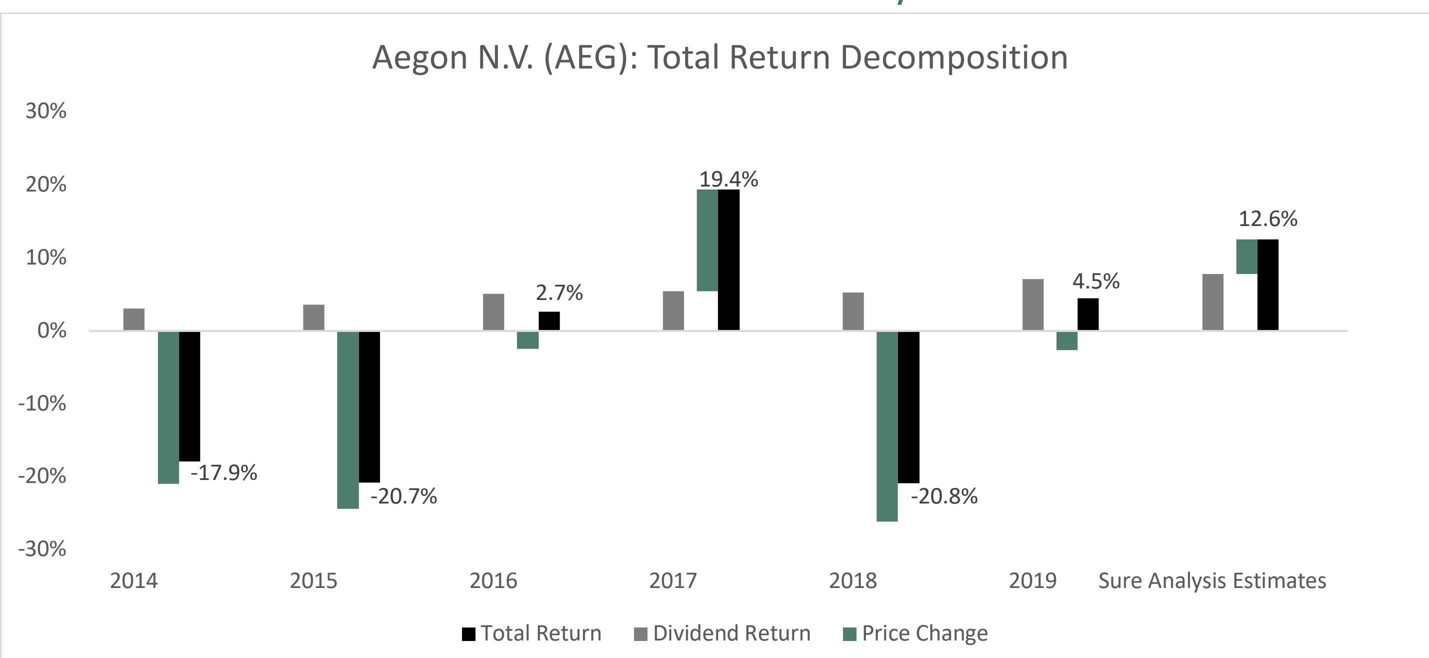
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	32.4%	36.6%	***43.8%***	***42.7%***

Aegon faces intense competition in its business and 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 to the generous dividend yield, which currently stands at 8.5%. Management targets to distribute 45%-55% of underlying earnings as dividends to shareholders.

Final Thoughts & Recommendation

Due to its poor business performance, Aegon has dramatically underperformed the market in the last two years. If the company recovers, it could offer a 12.6% average annual return over the next five years from its suppressed 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	64717	65187	44320	59885	64317	61619	41978	58838	65742	
SG&A Exp.	8343	4418	4688	3926	4201	4248	3948	3940	4143	
D&A Exp.	2393	2108	2302	1593	1343	1255	1686	1337	884	
Net Profit	284	2332	1233	2098	1309	1017	-479	484	2796	
Net Margin	0.4%	3.6%	2.8%	3.5%	2.0%	1.7%	-1.1%	0.8%	4.3%	
Free Cash Flow	-10064	1494	3034	-1705	-2788	5342	857	3573	506	
Income Tax	-932	204	71	478	266	201	-92	190	74	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	427.05	441.95	447.37	480.15	485.87	515.73	454.17	449.74	474.99	
Cash & Equivalents	6169	6957	10497	12683	12011	12901	11825	15116	16451	
Acc. Receivable	9757	10523	6132	N/A	7265	N/A	5680	9018	9707	
Goodwill & Int.	6591	5797	4255	3314	3137	2521	2078	1924	1959	
Total Liab. ($B)	400.04	410.80	414.03	445.68	454.50	482.07	425.47	424.01	446.07	
Accounts Payable	N/A	N/A	4467	N/A	4674	N/A	2774	4449	5493	
Long-Term Debt	10704	11329	13342	17743	16845	18299	14744	15017	17523	
Total Equity	26888	31047	33315	34458	31358	33652	28689	25708	28891	
D/E Ratio	0.40	0.36	0.40	0.51	0.54	0.54	0.51	0.58	0.61	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.1%	0.5%	0.3%	0.5%	0.3%	0.2%	-0.1%	0.1%	0.6%	
Return on Equity	1.2%	8.0%	3.8%	6.2%	4.0%	3.1%	-1.5%	1.8%	10.2%	
ROIC	0.9%	5.8%	2.8%	4.2%	2.6%	2.0%	-1.0%	1.1%	6.4%	
Shares Out.	1707	1852	1907	2401	2674	2685	2623	2617	2620	
Revenue/Share	40.78	38.19	23.93	31.40	26.79	23.04	15.63	22.43	25.12	
FCF/Share	-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.