Aegon N.V. (AEG)

Updated May 29th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$2.78	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$5.7 B
Fair Value Price:	$2.40	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	8/23/2020
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	9/20/2020
Dividend Yield:	11.9%	**5 Year Price Target**	$3.10	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

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 $5.7 billion.

Aegon reports financial results on a semiannual basis. However, it made an exception this year, as it needed to provide an update amid the pandemic. In mid-May, Aegon reported (5/12/20) financial results for the first quarter of fiscal 2020. Results were adversely affected by high mortality rates, depressed interest rates in America and net outflows of €1.0 billion due to the coronavirus crisis. As a result, the company posted a return on equity of 7.0%, which was lower than its target of 10.0%. Due to the pandemic, management does not expect to approach its target of 10.0% this year.

Like other life insurers, Aegon is hurt by the coronavirus crisis. If social distancing is not implemented, high mortality rates hurt the company. If social distancing is implemented, equity markets could collapse and thus the value of the investments of Aegon slumps. Due to the pandemic, we now expect Aegon to earn only $0.40 per share this year.

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	***$0.40***	***$0.51***
DPS	---	$0.13	$0.26	$0.30	$0.29	$0.27	$0.29	$0.30	$0.33	$0.33	***$0.33***	***$0.33***
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 5% earnings-per-share growth over the next five years off this year's low base.

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	***7.0***	***6.0***
Avg. Yld.	---	---	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	7.0%	***11.9%***	***10.8%***

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 -57% slump in less than two years, the stock is currently trading at a low price-to-earnings ratio of 7.0. 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 recently changed its CEO, 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 incur a -2.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

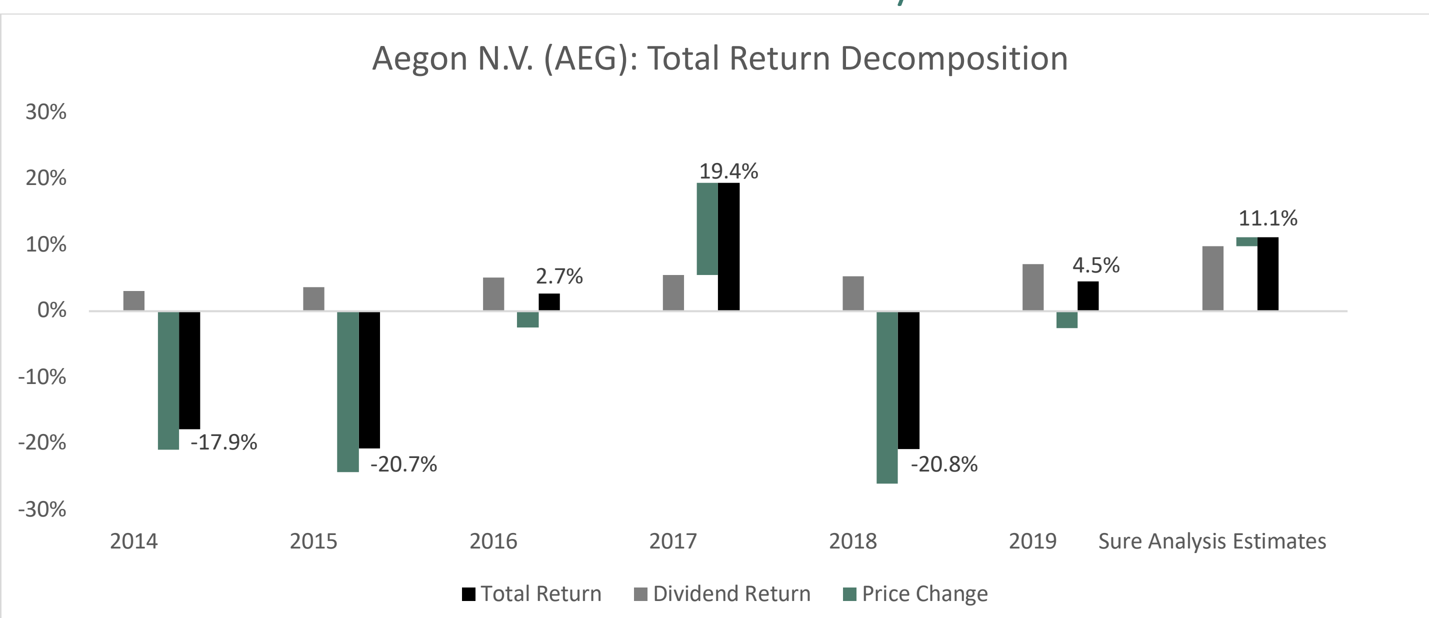
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	32.4%	36.6%	***82.5%***	***64.6%***

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 bright side, foreign investors may be attracted to the generous dividend yield, which currently stands at 11.9%. However, Aegon is highly vulnerable to the ongoing downturn, which has been caused by the pandemic. As a result, the dividend is at the risk of being cut later this year.

Final Thoughts & Recommendation

Due to its poor business performance and the impact of the coronavirus on its results, Aegon has dramatically underperformed the market in the last two years. As we expect the pandemic to subside from next year, Aegon could offer an 11.1% average annual return over the next five years from its suppressed stock 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 will be cut due to the headwind from the pandemic.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	65,187	44,320	59,885	64,317	61,619	41,978	58,838	65,742	24,752	75,360
SG&A Exp.	4,418	4,688	3,926	4,201	4,248	3,948	3,940	4,143	4,178	4,126
D&A Exp.	2,108	2,302	1,593	1,343	1,255	1,686	1,337	884	1,553	1,327
Net Profit	2,332	1,233	2,098	1,309	1,017	(479)	484	2,796	838	1,387
Net Margin	3.6%	2.8%	3.5%	2.0%	1.7%	-1.1%	0.8%	4.3%	3.4%	1.8%
Free Cash Flow	1,494	3,034	(1,705)	(2,788)	5,342	857	3,573	506	465	8,009
Income Tax	204	71	478	266	201	(92)	190	74	47	244

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	442.0	447.4	480.1	485.9	515.7	454.2	449.7	475.0	449.1	493.3
Cash & Equivalents	6,957	10,497	12,683	12,011	12,901	11,825	15,116	12,917	13,735	17,410
Acc. Receivable	10,523	6,132	---	7,265	---	5,680	9,018	---	6,885	7,455
Goodwill & Int.	5,797	4,255	3,314	3,137	2,521	2,078	1,924	1,959	1,976	1,746
Total Liab. ($B)	410.8	414.0	445.7	454.5	482.1	425.5	424.0	446.1	423.3	465.9
Accounts Payable	---	4,467	---	4,674	---	2,774	4,449	---	3,285	3,647
Long-Term Debt	11,329	13,342	17,743	16,845	18,299	14,744	15,017	17,434	15,631	13,115
Total Equity	31,047	33,315	34,458	31,358	33,652	28,689	25,708	28,864	25,761	27,356
D/E Ratio	0.36	0.40	0.51	0.54	0.54	0.51	0.58	0.60	0.61	0.48

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.5%	0.3%	0.5%	0.3%	0.2%	-0.1%	0.1%	0.6%	0.2%	0.3%
Return on Equity	8.0%	3.8%	6.2%	4.0%	3.1%	-1.5%	1.8%	10.2%	3.1%	5.2%
ROIC	5.8%	2.8%	4.2%	2.6%	2.0%	-1.0%	1.1%	6.4%	1.9%	3.4%
Shares Out.	1,346	1,461	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050
Revenue/Share	38.19	23.93	31.40	26.79	23.04	15.63	22.43	25.12	9.49	28.83
FCF/Share	0.88	1.64	(0.89)	(1.16)	2.00	0.32	1.36	0.19	0.18	3.06

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