

Unum Group (UNM)

Updated July 29th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	16.8%	Market Cap:	\$3.7 B
Fair Value Price:	\$30	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	07/30/20
% Fair Value:	60%	5 Year Valuation Multiple Estimate:	10.8%	Dividend Payment Date:	08/21/20
Dividend Yield:	6.3%	5 Year Price Target	\$33	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	9.6%

Overview & Current Events

Headquartered in Chattanooga, TN, Unum Group is an insurance holding company providing a broad portfolio of financial protection benefits and services. The company operates through its Unum US, Unum UK, Unum Poland and Colonial Life businesses, providing disability, life, accident, critical illness, dental and vision benefits to millions of customers. Last year the \$4 billion company generated \$12 billion in revenue and paid out \$7.5 billion in benefits.

On July 17th, 2020 Unum declared a \$0.285 quarterly dividend, the fifth straight payment at this rate.

On July 28th, 2020 Unum reported Q2 2020 results for the period ending June 30th, 2020. For the quarter Unum generated \$3.02 billion in revenue, up 0.2% compared to Q2 2019. Premium income was up 1.1%, but this was offset by a decline in net investment income. Net income equaled \$265.5 million (\$1.30 per share) compared to \$281.2 million (\$1.33 per share) previously. On an adjusted basis, excluding investment gains or losses, operating income equaled \$250.1 million or \$1.23 per share compared to \$1.36 in the year ago quarter. Book value per share was \$51.90 compared to \$45.11 at the end of Q2 2019.

Previously Unum expected 4%-7% growth in operating profit per share for 2020, but that was before the COVID-19 crisis. As a result of the pandemic, Unum suspended its guidance and share repurchases for this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.71	\$2.96	\$3.17	\$3.23	\$3.59	\$3.64	\$3.93	\$4.29	\$5.20	\$5.44	\$5.00	\$5.52
DPS	\$0.35	\$0.40	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.26
Shares¹	316.6	297.7	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	204	180

Over the past decade Unum has been able to grow its earnings-per-share by an average compound growth rate of 7.8% per annum. More impressive, is the idea that earnings-per-share grew every single year during this period. Results were helped by an average business growth rate, around ~3% annually, aided by a significant share repurchase program, retiring nearly -5% of the share count each year. Moving forward, this program will continue to be an important factor considering the security's persistently low valuation, however, repurchases are on hold for now.

Unum can continue to grow via reasonable improvement in premium and investment income, expense management and a meaningful share repurchase program over time. With that being said, there are headwinds including exceptionally low interest rates, demand uncertainty related to the COVID-19 pandemic and concerns regarding the company's long-term care policies. To this point, the company took a -\$593 million charge related to an increase in long-term care reserves in 2018 and the Maine Bureau of Insurance concluded Unum America's long-term care reserves were deficient by \$2.1 billion as of December 31st, 2018. To address this Unum will begin phasing in reserves in 2020 through 2026, starting between \$200 million and \$250 million for this year.

While Unum has put together a solid growth record, this has been dependent on share repurchases to a large extent. To stay conservative, we are forecasting 2% annual growth over the intermediate term.

¹ In millions.

Disclosure: This analyst is long the security discussed in this research report

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.3	8.2	6.6	9.0	10.3	9.4	8.7	11.4	8.0	5.9	3.6	6.0
Avg. Yld.	1.6%	1.6%	2.2%	1.9%	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	6.3%	3.8%

During the past decade shares of Unum have traded hands with an average valuation between 8- and 9-times earnings, with a range from 5 to 12. We are using 6 times earnings as a starting fair value estimate. Given the decline in the valuation this year, this would imply the potential for a significant valuation tailwind. The well above average 6%+ dividend yield helps as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13%	14%	15%	17%	17%	19%	20%	20%	19%	20%	23%	23%

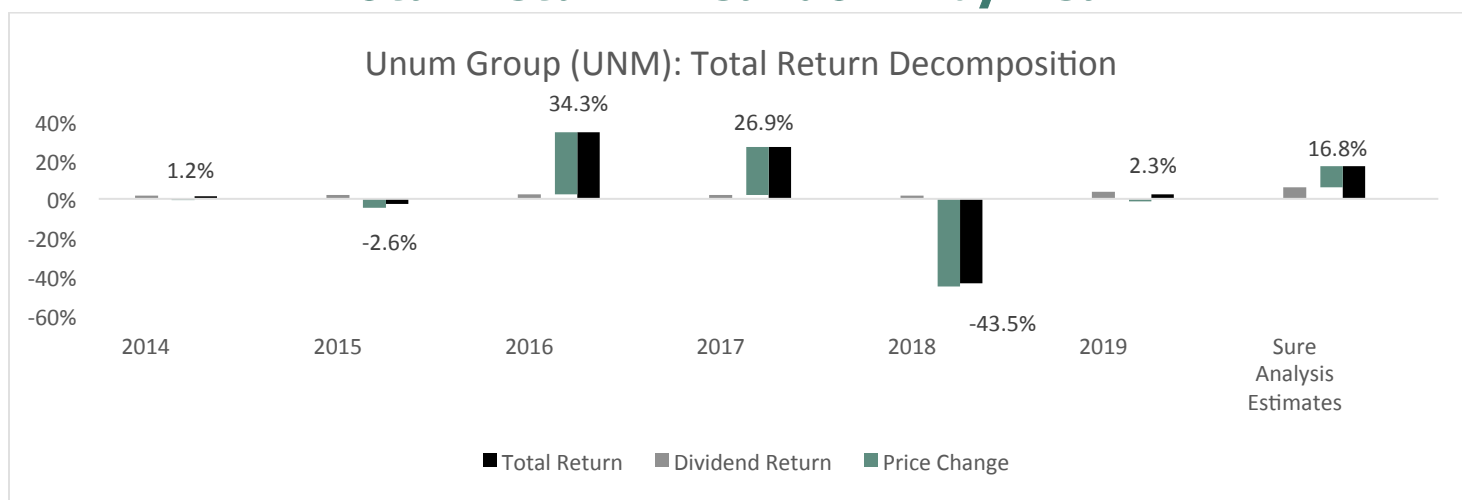
Unum has demonstrated a strong operating history in good times or bad for decades now. During the last recession the company posted earnings-per-share of \$2.19, \$2.51, \$2.57 and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

With that being said, it's hard to gain a competitive advantage within the industry as insurance products are commodity-like in nature. Still, we are encouraged by the solid results of the company in all operating environments, the conservative dividend payout ratio and the focus on share repurchases, this year notwithstanding. Moreover, we prefer the slow and steady long-term growth of the business instead of chasing short-term results.

Final Thoughts & Recommendation

Shares are up 20% since our last report, but still appear compelling. Unum has put together a solid operating history, led by a steady underlying business supported by a meaningful share repurchase program. Today, with shares trading near ~4 times expected earnings, we are forecasting 16.8% annual total return potential, driven by a 6.3% starting dividend yield, 2% growth rate off a lower base and significant valuation tailwind. This could be too optimistic if short-term concerns become long-term in nature, but we are encouraged on a number of fronts and rate shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10193	10278	10515	10369	10525	10731	11047	11287	11599	11999
SG&A Exp.	776	808	787	790	821	835	839	852	886	898
D&A Exp.	75	81	84	85	88	100	102	103	101	110
Net Profit	879	284	894	847	402	867	931	994	523	1100
Net Margin	8.6%	2.8%	8.5%	8.2%	3.8%	8.1%	8.4%	8.8%	4.5%	9.2%
Free Cash Flow	1197	1096	1274	926	1109	1192	1037	1059	1392	1591
Income Tax	441	49	355	373	140	371	416	410	104	282

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	57308	59555	62236	59404	62450	60564	61942	64013	61876	67013
Cash & Equivalents	54	117	77	94	103	113	100	77	94	84
Accounts Receivable	1666	6527	6475	6454	6541	6324	6470	6545	6278	6384
Goodwill & Int. Ass.	201	232	225	220	214	255	367	367	447	440
Total Liabilities	48363	51386	53624	50745	53928	51900	52974	54438	53254	57048
Long-Term Debt	2856	2883	3211	2612	2781	2801	2999	2938	2971	3327
Shareholder's Equity	8944	8170	8613	8659	8522	8664	8968	9575	8622	9965
D/E Ratio	0.32	0.35	0.37	0.30	0.33	0.32	0.33	0.31	0.34	0.33

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.6%	0.5%	1.5%	1.4%	0.7%	1.4%	1.5%	1.6%	0.8%	1.7%
Return on Equity	10.1%	3.3%	10.7%	9.8%	4.7%	10.1%	10.6%	10.7%	5.8%	11.8%
ROIC	7.7%	2.5%	7.8%	7.3%	3.6%	7.6%	7.9%	8.1%	4.3%	8.8%
Shares Out.	316.6	297.7	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9
Revenue/Share	31.15	33.86	37.32	38.99	41.01	43.30	46.81	49.65	52.71	57.18
FCF/Share	3.66	3.61	4.52	3.48	4.32	4.81	4.39	4.66	6.33	7.58

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

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