MetLife Inc. (MET)

Updated August 6th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$34.5 B
Fair Value Price:	$42	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	08/03/20
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	09/14/20
Dividend Yield:	4.8%	**5 Year Price Target**	$51	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	4.5%

Overview & Current Events

MetLife is one of the world's leading financial services companies, providing insurance, annuities, employee benefits and asset management to help its individual and institutional customers navigate their changing world. Founded in 1868 as Metropolitan Life, today the $35 billion MetLife has operations in more than 40 countries and holds leading positions in the U.S., Japan, Latin America, Asia, Europe and the Middle East, with about half of profits generated in the U.S.

On July 28th, 2020 MetLife announced a $0.46 quarterly dividend, representing a 4.5% year-over-year increase.

On August 5th, 2020 MetLife released Q2 2020 results for the period ending June 30th, 2020. For the quarter the company reported revenue of $14.1 billion, representing a -19.4% decline compared to Q2 2019, as both premiums and net investment income declined -13%. In addition, the derivative segment swung from a +$724 million gain to a -$710 million loss. Adjusted earnings equaled $758 million or $0.83 per share compared to $1.32 billion or $1.38 per share previously. The share count continues to decline meaningfully. MetLife's adjusted book value per share equaled $52.27 versus $47.09 in Q2 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$4.38	$4.45	$5.28	$5.63	$5.74	$4.86	$4.59	$3.92	$5.39	$6.11	***$5.25***	***$6.39***
DPS	$0.74	$0.74	$0.74	$1.01	$1.33	$1.48	$1.58	$1.60	$1.66	$1.74	***$1.84***	***$2.24***
Shares[1]	986	1,058	1,092	1,122	1,132	1,098	1,096	1,044	959	915	***900***	***820***

MetLife has put together a reasonable, but unspectacular earnings record in the last decade. From 2008 through 2019 earnings-per-share grew by an average compound rate of 4.7% per annum. Moreover, there were four separate instances of year-over-year declines. Still, the company bounced back significantly in 2018 and 2019.

Above average growth is generally not expected in the insurance business, as competition is fierce, and the products being offered are commodity-like in nature. Further, Insurers can get in trouble by "chasing" growth if it means underpricing policies to gain share. The liabilities are not known for years, meaning that you can grow quickly in the short-term, but be worse off for it in the long-term. Our preference is a slow and steady approach and our expectation is continued 4% growth in-line with the company's past.

MetLife does have a few growth avenues in the way of general economic growth, international operations boosting its growth profile, and rising interest rates should they eventually come about. Additionally, share repurchases make sense given the below average valuation which can enhance bottom-line improvement.

That being said, the COVID-19 pandemic and lower interest rates will continue to pressure results in the short-term.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	9.2	8.8	6.5	7.9	9.2	10.5	9.7	13.3	8.5	7.7	***7.3***	***8.0***
Avg. Yld.	1.8%	1.9%	2.2%	2.3%	2.5%	2.9%	3.5%	3.1%	3.6%	3.7%	***4.8%***	***4.4%***

[1] In millions.

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Over the past decade shares of MetLife have traded hands with an average P/E ratio of around 9 times earnings, with a range of 5 to 13. We believe 8 times earnings is a reasonable starting place, considering the conservative growth profile of the firm coupled with a typical valuation in the industry. With shares trading at ~7 times expected earnings this implies a small valuation tailwind. MetLife's dividend should add nicely to shareholder returns as well, given the near 5% yield and runway for future growth. Note that MetLife held its dividend steady from 2007 through 2012 and recently held the payment at $0.40 for eight quarters in 2016 through 2018, before it bumped it up 5% in 2018, 4.8% in 2019 and 4.5% in 2020. Future dividend growth may be lumpy, but we do anticipate year-over-year increases from this point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	17%	17%	14%	18%	23%	30%	34%	41%	31%	28%	***35%***	***35%***

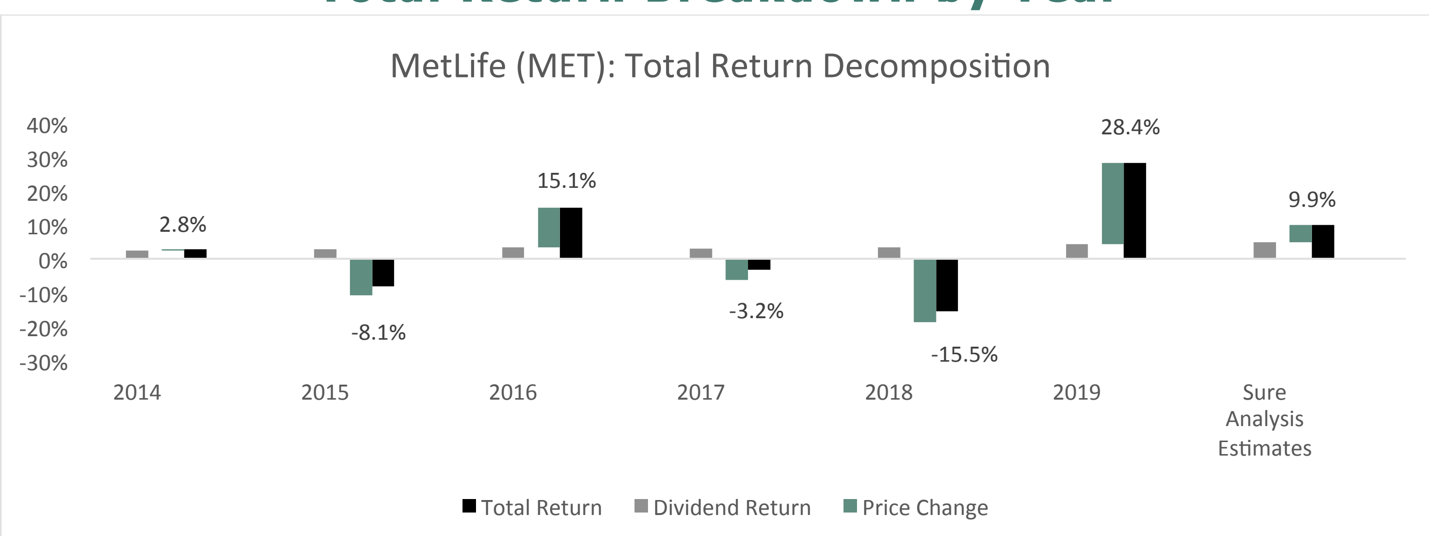
While MetLife is the largest U.S. life insurer, the industry does not typically exhibit competitive advantages as the products are commodity-like in nature. Consumers are not willing to pay a material premium to get the same policy. That being said, MetLife's long tradition and experience in the industry, along with a proven track record of intelligent, slow growth is encouraging. During the last recession MetLife posted earnings-per-share of $3.67, $2.87 and $4.38 during the 2008 through 2010 stretch. In addition, the dividend was held steady during this time. We believe this typifies what an investor might expect when the next recession comes along – a sizable hit to short-term earnings, but the ability to bounce back and keep paying the dividend. The current crisis will test this thesis.

We believe MetLife's historical dividend payout ratio management has been prudent – freezing the dividend in lesser times and accelerating growth when there is ample room to do so.

Final Thoughts & Recommendation

After being down -33% in our last report, shares are up 9% in the last three months. MetLife is not the type of security that is going to "wow" you when it comes to growth prospects. Indeed, it's in an industry where it can be intelligent to stick to prudent underwriting and let your competitors underprice you. We are forecasting 9.9% annual total return potential stemming from 4% intermediate-term growth, a 4.8% starting dividend yield and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	52247	70241	68150	68199	73316	61343	60787	62308	67941	69620
SG&A Exp.	5363	7773	8076	7426	7185	7302	6866	6724		
D&A Exp.	585	679	596	714	713	693	652	795		
Net Profit	2667	6423	1324	3368	6309	5373	850	4010	5123	5899
Net Margin	5.1%	9.1%	1.9%	4.9%	8.6%	8.8%	1.4%	6.4%	7.5%	8.5%
Free Cash Flow	7985	10273	17160	16131	16376	14052	14774	12283		
Income Tax	1110	2793	128	661	2465	1590	693	-1470	1179	886

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	730.91	796.23	836.78	885.30	902.34	877.93	898.76	719.89	687.54	740.46
Cash & Equivalents	13046	10461	15738	7585	10808	12752	12651	12701	15821	16598
Acc. Receivable	19830	22481	21634	21859	22244	22702	15445	18423	19644	20443
Goodwill & Int.	11781	11935	9953	10542	9872	9477	9220	9590	9422	
Total Liab. ($B)	681.79	738.34	771.94	823.20	829.78	809.51	831.06	661.02	634.58	9308
Long-Term Debt	36380	27533	22354	22021	19579	21317	19852	19307	16244	
Total Equity	48624	57518	64452	61552	72052	67949	67531	58676	52741	
D/E Ratio	0.75	0.48	0.35	0.36	0.27	0.31	0.29	0.33	0.31	16851

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.4%	0.8%	0.2%	0.4%	0.7%	0.6%	0.1%	0.5%	0.7%	0.8%
Return on Equity	6.5%	12.1%	2.2%	5.3%	9.4%	7.7%	1.3%	6.4%	9.2%	9.9%
ROIC	3.8%	7.5%	1.5%	3.9%	7.2%	5.9%	1.0%	4.8%	7.0%	7.7%
Shares Out.	986	1,058	1,092	1,122	1,132	1,098	1,096	1,044	1,014	944
Revenue/Share	58.73	65.76	63.29	61.10	64.17	54.37	54.84	57.77	67.01	76.06
FCF/Share	8.98	9.62	15.94	14.45	14.33	12.45	13.33	11.39		

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