



# Aflac Inc. (AFL)

Updated October 28<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	12.4%	<b>Market Cap:</b>	\$24 B
<b>Fair Value Price:</b>	\$48	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/17/20
<b>% Fair Value:</b>	72%	<b>5 Year Valuation Multiple Estimate:</b>	6.8%	<b>Dividend Payment Date:</b>	12/01/20
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$55	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	3.7%

## Overview & Current Events

Aflac Inc., founded in 1955, is the world's largest underwriter of supplemental cancer insurance. The diversified insurance corporation also provides accident, short-term disability, critical illness, dental, vision, and life insurance. Roughly 70% of the company's pretax earnings are from Japan, with 30% coming from the U.S. The \$24 billion market cap company, which has increased its dividend for 38 consecutive years, generated \$3.3 billion in profit in 2019.

On October 27<sup>th</sup>, 2020 Aflac released Q3 2020 results for the period ending September 30<sup>th</sup>, 2020. For the quarter the company reported \$5.67 billion in revenue, representing a 2.3% increase compared to Q3 2019. Net earnings equaled \$2.46 billion or \$3.44 per share compared to \$777 million or \$1.04 per share in the year ago quarter. However, this included a \$1.4 billion benefit related to the release of deferred tax benefits. On an adjusted basis earnings-per-share equaled \$1.39 versus \$1.16 in Q3 2019.

Prior to the pandemic Aflac provided a 2020 outlook expecting to generate \$4.32 to \$4.52 in earnings-per-share. However, this guidance was later withdrawn amid the uncertainty. That being said, results have been solid this year.

Aflac declared a \$0.28 quarterly dividend during the quarter, representing a 3.7% year-over-year increase.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.57	\$2.09	\$2.93	\$3.09	\$3.08	\$3.08	\$3.40	\$3.41	\$4.17	\$4.44	<b>\$4.75</b>	<b>\$5.51</b>
<b>DPS</b>	\$0.57	\$0.62	\$0.67	\$0.71	\$0.75	\$0.79	\$0.83	\$0.87	\$1.04	\$1.08	<b>\$1.12</b>	<b>\$1.30</b>
<b>Shares<sup>1</sup></b>	939	933	936	919	885	849	812	781	755	727	<b>715</b>	<b>660</b>

From 2007 through 2019, Aflac was able to grow earnings-per-share by an average compound rate of 8.7% per annum, although part of that improvement is tax reform related. Also, keep in mind that from 2011 through 2017 the Yen was generally weakening against the dollar.

Aflac has two sources of revenue: income from premiums and income from investments. On the premium side, this is generally sticky with policy renewals making up the bulk of income. However, Aflac operates in two developed markets where we would not anticipate seeing outsized growth in the business. The other lever available is on the investment side, where the vast majority of the portfolio is in bonds. Here there is a possibility for income improvement should rates rise in the future. Finally, the share repurchase program has been an important factor as well.

However, all of these items – premium growth, higher rates and repurchases – are currently being challenged by the COVID-19 pandemic. To this point, Aflac saw an accelerated decline in sales in March and April, although recent results are encouraging. We are using a modest growth rate of 3% annually, along with higher expected earnings this year.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	9.9	11.3	7.9	9.4	10.0	10.0	10.0	11.4	10.8	11.6	<b>7.2</b>	<b>10.0</b>
<b>Avg. Yld.</b>	2.3%	2.6%	2.9%	2.4%	2.4%	2.6%	2.5%	2.2%	2.3%	2.1%	<b>3.3%</b>	<b>2.4%</b>

<sup>1</sup> 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.



# Aflac Inc. (AFL)

Updated October 28<sup>th</sup>, 2020 by Eli Inkrot

Over the last decade shares of Aflac have traded hands with an average P/E ratio of roughly 10 times earnings. We believe this is more or less fair for the security, considering that many insurers trade at a comparable multiple. This lower average valuation multiple allows for the robust share repurchase program to be more effective. Ongoing owners are much better served if the company is buying out past partners at 10 times earnings as compared to say 15- or 20-times earnings. With shares trading near 7 times our earnings estimate, this implies a valuation tailwind.

Aflac is a Dividend Aristocrat with a long streak of rising dividends. Moreover, with the company paying out less than a fourth of its profits in the form of a dividend, there is ample runway for the dividend streak to continue.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	22%	30%	23%	23%	24%	26%	24%	26%	25%	24%	24%	24%

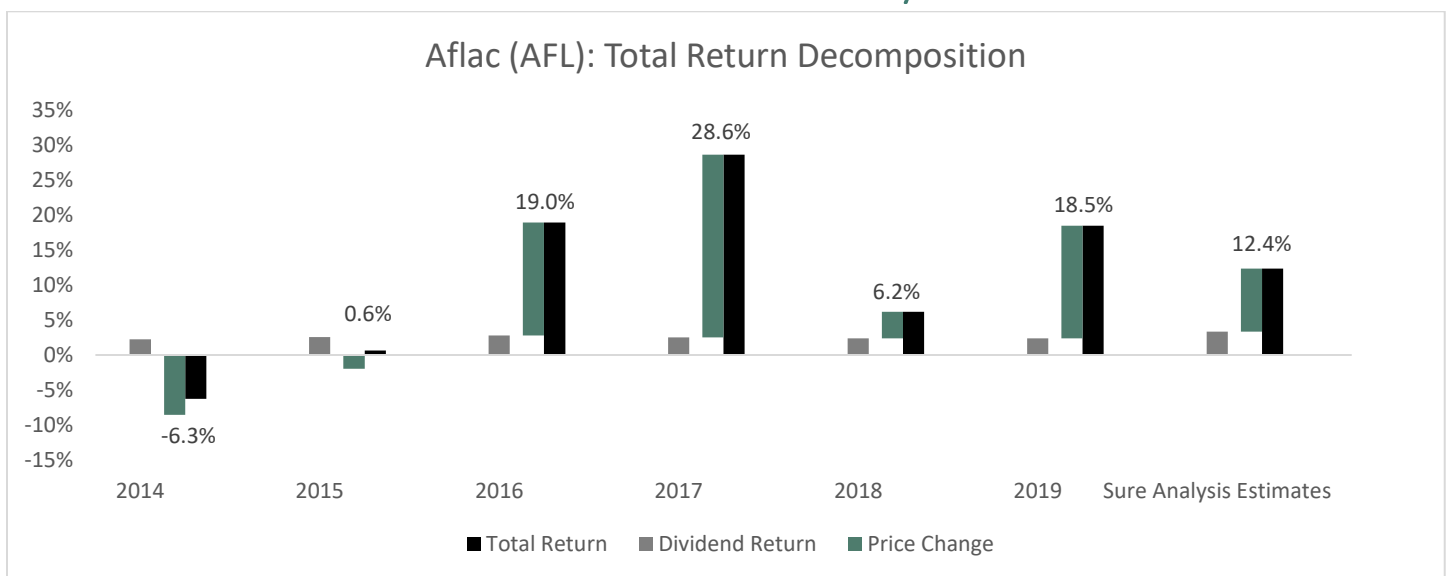
During the last recession Aflac generated earnings-per-share of \$1.64, \$1.31, \$1.96 and \$2.57 during the 2007 through 2010 period. Furthermore, the dividend was increasing this entire time. We are encouraged by the past performance and ongoing financial stability, as the company's strong brand and conservative approach serve as complementary competitive advantages. Although we do note that the company's international exposure, while strong in Japan, mitigates some of its reliability, especially as it relates to currency fluctuations.

Despite this reasonable recession performance, especially in comparison to other financial institutions, Aflac's share price dropped all the way from \$34 in the middle of 2008 down to under \$6 per share at the depths of the recession – even though the underlying earnings power was fine, and the dividend never faltered. We suppose this is a general cautionary note: in the long run business results will prevail, but in the short-term anything can happen, so it's important to prepare accordingly.

## Final Thoughts & Recommendation

Shares are down 6% since our last report. Aflac is the sort of security that looks quite interesting from first glance, given the solid business model, great dividend growth record and starting valuation near 7 times earnings. Total return potential comes in at 12.4% per annum, as the 3% growth rate and 3.3% starting dividend yield could be aided by a valuation tailwind. Shares continue to earn a buy rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Aflac Inc. (AFL)

Updated October 28<sup>th</sup>, 2020 by Eli Inkrot

## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	20658	22090	25272	23827	22606	20811	22489	21600	21758	22307
<b>Net Profit</b>	2328	1937	2866	3158	2951	2533	2659	4604	2920	3304
<b>Net Margin</b>	11.3%	8.8%	11.3%	13.3%	13.1%	12.2%	11.8%	21.3%	13.4%	14.8%
<b>Free Cash Flow</b>	6989	10842	14952	10547	6550	6776	5987	6128	---	---
<b>Income Tax</b>	1233	1013	1436	1658	1540	1329	1408	-586	1063	1141

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	101.0	116.24	131.09	121.31	119.77	118.26	129.82	137.22	140.41	152.77
<b>Cash &amp; Equivalents</b>	2121	2249	2041	2543	4658	4350	4859	3491	---	---
<b>Accounts Receivable</b>	661	680	976	1165	842	705	669	827	---	---
<b>Total Liab. (\$B)</b>	89.98	103.29	115.12	106.69	101.42	100.55	109.34	112.62	116.94	123.81
<b>Accounts Payable</b>	191	---	---	---	---	---	---	---	---	---
<b>Long-Term Debt</b>	3038	3275	4343	4891	5268	4951	5339	5267	5778	6569
<b>Shareholder's Equity</b>	11056	12946	15978	14620	18347	17708	20482	24598	23462	28959
<b>D/E Ratio</b>	0.27	0.25	0.27	0.33	0.29	0.28	0.26	0.21	0.25	0.23

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	2.5%	1.8%	2.3%	2.5%	2.4%	2.1%	2.1%	3.4%	2.1%	2.3%
<b>Return on Equity</b>	23.9%	16.1%	19.8%	20.6%	17.9%	14.1%	13.9%	20.4%	12.2%	12.6%
<b>ROIC</b>	18.5%	12.8%	15.7%	15.9%	13.7%	10.9%	11.0%	16.5%	9.9%	10.2%
<b>Shares Out.</b>	939	933	936	919	885	849	812	781	755	727
<b>Revenue/Share</b>	21.83	23.53	26.93	25.49	24.90	24.02	27.17	27.07	28.09	29.88
<b>FCF/Share</b>	7.39	11.55	15.93	11.28	7.21	7.82	7.23	7.68	---	---

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

---

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.