



Aegon N.V. (AEG)

Updated February 16th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$4.50	5 Year CAGR Estimate:	10.3%	Market Cap:	\$9.1 B
Fair Value Price:	\$5.60	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	6/7/2021
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	7/7/2021
Dividend Yield:	1.6%	5 Year Price Target	\$6.80	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 Depositary Receipts that trade on the New York Stock Exchange under the ticker AEG with a market cap of \$9.1 billion.

Aegon reports financial results on a semiannual basis. In mid-February, Aegon reported (2/11/21) financial results for the second half of fiscal 2020. Its pre-tax profit rose 7% over the prior year's period thanks to higher equity markets in the U.S. and improved results in Asset Management. However, the company switched from a net profit of €908 million to a net loss of -€147 million due to increased value of liabilities in the Netherlands.

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 collapse and thus the value of the investments of Aegon slumps. Management cut the annual dividend by -79% in 2020, from \$0.33 to \$0.07. However, we expect the pandemic to subside in the second half of the year and thus we expect Aegon to recover this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.28	\$1.04	\$0.62	\$0.42	\$0.12	\$0.19	\$0.86	\$1.02	\$0.90	\$0.03	\$0.70	\$0.85
DPS	\$0.13	\$0.26	\$0.30	\$0.29	\$0.27	\$0.29	\$0.30	\$0.33	\$0.33	\$0.07	\$0.07	\$0.14
Shares¹	1,461	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050	2,058	2,065	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 grown 41% over the last decade. This trend may continue, presenting a meaningful headwind to per-share growth. Due to the weak record and the improved results we expect this year, we expect only 4% earnings-per-share growth beyond this year.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.2	13.3	10.1	14.8	23.2	34.8	16.4	6.2	5.2	---	6.4	8.0
Avg. Yld.	---	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	7.0%	2.2%	1.6%	2.1%

1. In millions.

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Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. The stock is currently trading at a low price-to-earnings ratio of 6.4. The cheap valuation has partly resulted from the suppressed interest rates in the U.S. and in Europe. 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 and the volatile performance record of the company, we assume a fair value price-to-earnings ratio of 8.0 for Aegon. If the stock reaches a price-to-earnings ratio of 8.0 over the next five years, it will enjoy a 4.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

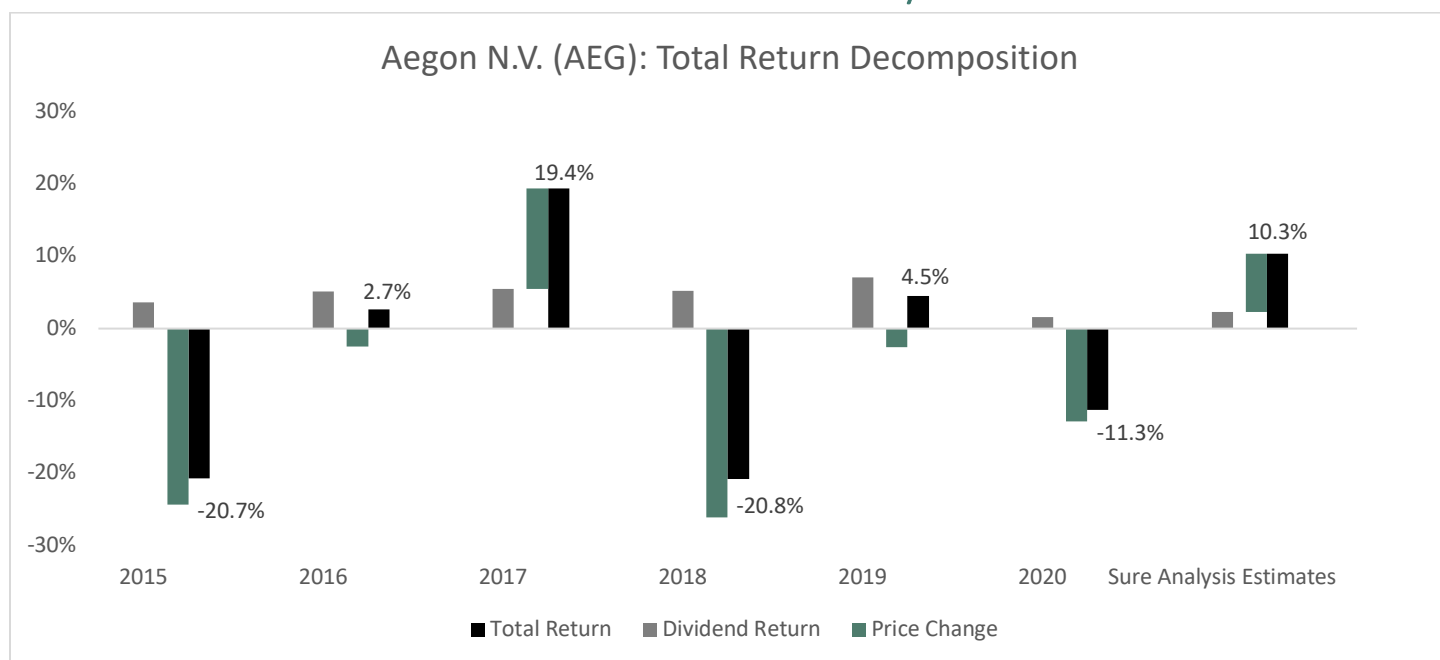
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25.0%	3.8%	22.6%	42.9%	108%	63.2%	9.9%	32.4%	36.6%	233%	10.0%	16.5%

Aegon faces intense competition in its business and 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. Moreover, Aegon is highly vulnerable to the ongoing downturn, which has been caused by the pandemic. The recent dividend cut and the absence of dividends in 2009-2010 are harsh reminders of the vulnerability of Aegon to recessions.

Final Thoughts & Recommendation

Thanks to the enthusiasm of the market over the massive vaccination program underway, Aegon has rallied 70% in less than four months. As we expect the pandemic to subside late this year, Aegon could still offer a 10.3% average annual return over the next five years. However, Aegon has a markedly volatile performance record and its stock price is much more volatile than the broad market. The stock earns a hold rating for risk aware investors, who can stomach wild stock price swings. The steep rally of the stock is a clear signal of the upside potential in the event of a global recovery from the pandemic, but it also reflects the vulnerability of Aegon in the event of a prolonged pandemic.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	447.4	480.1	485.9	515.7	454.2	449.7	475.0	449.1	493.3
Cash & Equivalents	10,497	12,683	12,011	12,901	11,825	15,116	12,917	13,735	17,410
Acc. Receivable	6,132	---	7,265	---	5,680	9,018	---	6,885	7,455
Goodwill & Int.	4,255	3,314	3,137	2,521	2,078	1,924	1,959	1,976	1,746
Total Liab. (\$B)	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	13,342	17,743	16,845	18,299	14,744	15,017	17,434	15,631	13,115
Total Equity	33,315	34,458	31,358	33,652	28,689	25,708	28,864	25,761	27,356
D/E Ratio	0.40	0.51	0.54	0.54	0.51	0.58	0.60	0.61	0.48

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.3%	0.5%	0.3%	0.2%	-0.1%	0.1%	0.6%	0.2%	0.3%
Return on Equity	3.8%	6.2%	4.0%	3.1%	-1.5%	1.8%	10.2%	3.1%	5.2%
ROIC	2.8%	4.2%	2.6%	2.0%	-1.0%	1.1%	6.4%	1.9%	3.4%
Shares Out.	1,461	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050
Revenue/Share	23.93	31.40	26.79	23.04	15.63	22.43	25.12	9.49	28.83
FCF/Share	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.

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