



Aflac Inc. (AFL)

Updated February 4th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	8.3%	Market Cap:	\$32 B
Fair Value Price:	\$51	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/16/21
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	03/01/21
Dividend Yield:	2.8%	5 Year Price Target	\$62	Years Of Dividend Growth:	39
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	17.9%

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 \$32 billion market cap company, which has increased its dividend for 39 consecutive years, generated \$3.4 billion in profit in 2020.

On November 18th, 2020 Aflac declared a \$0.33 quarterly dividend, marking a 17.9% increase and the company's 39th straight year of increasing its payment.

On February 3rd, 2021 Aflac released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter the company reported \$5.91 billion in revenue, representing a 5.5% increase compared to Q4 2019. Net earnings equaled \$951 million or \$1.35 per share compared to \$782 million or \$1.06 per share in Q4 2019. On an adjusted basis, earnings-per-share equaled \$1.07 versus \$1.03 prior.

For the year Aflac generated \$22.15 billion in revenue, representing a -0.7% decline compared to 2019. Net income equaled \$4.78 billion or \$6.67 per share compared to \$3.30 billion or \$4.43 per share in 2019. However, this included a significant tax release benefit. On an adjusted basis, earnings-per-share equaled \$4.96 versus \$4.44 in 2019.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.09	\$2.93	\$3.09	\$3.08	\$3.08	\$3.40	\$3.41	\$4.17	\$4.44	\$4.96	\$5.10	\$6.20
DPS	\$0.62	\$0.67	\$0.71	\$0.75	\$0.79	\$0.83	\$0.87	\$1.04	\$1.08	\$1.12	\$1.32	\$1.61
Shares¹	933	936	919	885	849	812	781	755	727	692	680	630

From 2007 through 2020, Aflac was able to grow earnings-per-share by an average compound rate of 8.8% per annum, although part of that improvement is tax reform related. Also, keep in mind that the Yen was generally weakening against the dollar for a good amount of the last decade. Results for 2020 were especially impressive amid the pandemic.

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, although lower rates have been persistent. In addition, the share repurchase program has been an important factor as well and we believe it will continue to drive bottom-line results.

All of these items – premium growth, higher rates and repurchases – were challenged to some degree by the COVID-19 pandemic. However, the company has proven to be quite resilient. We are forecasting another uptick in 2021 earnings to go along with a 4% annual growth rate over the intermediate term.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.3	7.9	9.4	10.0	10.0	10.0	11.4	10.8	11.6	7.7	9.1	10.0
Avg. Yld.	2.6%	2.9%	2.4%	2.4%	2.6%	2.5%	2.2%	2.3%	2.1%	2.8%	2.8%	2.4%

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 9 times our earnings estimate, this implies a small valuation tailwind.

Aflac is a Dividend Aristocrat with a long streak of rising dividends. Moreover, with the company paying out roughly 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	23%	23%	24%	26%	24%	26%	25%	24%	23%	26%	26%

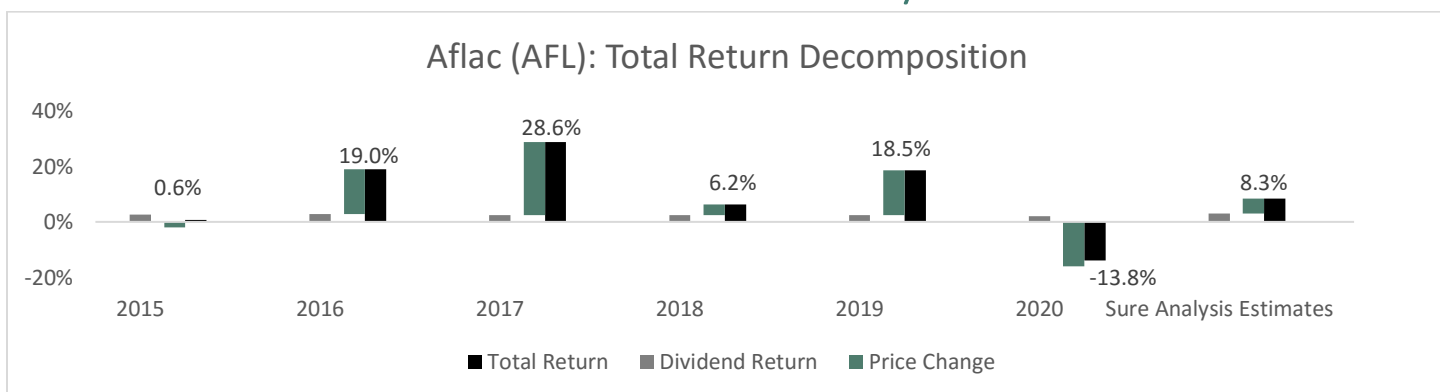
During the last recession Aflac generated earnings-per-share of \$1.64, \$1.31, \$1.96 and \$2.57 during the 2007 through 2010 period. Furthermore, the dividend was increasing this entire time. We are encouraged by the past performance and ongoing financial stability, as the company's strong brand and 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 up 37% 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 9 times earnings. Total return potential comes in at 8.3% per annum, as the 4% growth rate and 2.8% starting dividend yield could be aided by a valuation tailwind. Due to the materially higher valuation as of late shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	116.2	131.09	121.31	119.77	118.26	129.82	137.22	140.41	152.77
Cash & Equivalents	2249	2041	2543	4658	4350	4859	3491	---	---
Accounts Receivable	680	976	1165	842	705	669	827	---	---
Total Liab. (\$B)	103.3	115.12	106.69	101.42	100.55	109.34	112.62	116.94	123.81
Accounts Payable	---	---	---	---	---	---	---	---	---
Long-Term Debt	3275	4343	4891	5268	4951	5339	5267	5778	6569
Shareholder's Equity	12946	15978	14620	18347	17708	20482	24598	23462	28959
D/E Ratio	0.25	0.27	0.33	0.29	0.28	0.26	0.21	0.25	0.23

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.8%	2.3%	2.5%	2.4%	2.1%	2.1%	3.4%	2.1%	2.3%
Return on Equity	16.1%	19.8%	20.6%	17.9%	14.1%	13.9%	20.4%	12.2%	12.6%
ROIC	12.8%	15.7%	15.9%	13.7%	10.9%	11.0%	16.5%	9.9%	10.2%
Shares Out.	933	936	919	885	849	812	781	755	727
Revenue/Share	23.53	26.93	25.49	24.90	24.02	27.17	27.07	28.09	29.88
FCF/Share	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.

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