



Unum Group (UNM)

Updated February 5th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	12.4%	Market Cap:	\$4.8 B
Fair Value Price:	\$34	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	01/28/21
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.0%	Dividend Payment Date:	02/19/21
Dividend Yield:	4.8%	5 Year Price Target	\$37	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. In 2020 the \$5 billion company generated \$13 billion in revenue and paid out nearly \$9 billion in benefits. On January 15th, 2021 Unum declared a \$0.285 quarterly dividend, the seventh straight payment at this rate.

On February 4th, 2021 Unum reported Q4 and full year results for the period ending December 31st, 2020. For the quarter Unum generated revenue of \$4.27 billion compared to \$3.03 billion in Q4 2019. However, this is due to \$1.3 billion in net investment gains, as \$2.32 billion in premium income represented a decline of -1.4%. Reported net income equaled \$135.4 million or \$0.66 per share compared to \$296.2 million or \$1.44 per share in Q4 2019. On an adjusted basis, earnings-per-share equaled \$1.15 versus \$1.41 in Q4 2019.

For the year Unum generated revenue of \$13.162 billion, a gain of 9.7% compared to 2019's \$11.999 billion figure. Once again 2020 benefited from a large investment gain (\$1.2 billion) as premium income of \$9.38 billion was only up 0.1%. Reported net income equaled \$793 million or \$3.89 per share compared to \$1.1 billion or \$5.24 per share in 2019. On an adjusted basis, earnings-per-share equaled \$4.93 compared to \$5.44 in 2019.

For 2021 Unum expects a modest decline in adjusted operating income for 2021 compared to 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.96	\$3.17	\$3.23	\$3.59	\$3.64	\$3.93	\$4.29	\$5.20	\$5.44	\$4.93	\$4.80	\$5.30
DPS	\$0.40	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.86	\$0.98	\$1.09	\$1.14	\$1.14	\$1.26
Shares¹	297.7	269.8	259.5	251.4	240.9	229.8	222.6	214.6	202.9	203.7	200	180

In the 2010 through 2019 stretch Unum grew 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. Of course, 2020 was a down year, breaking the company's streak.

Unum can get back to growth 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 is phasing in reserves in 2020 through 2026, starting between \$200 million and \$250 million annually.

¹ In millions.

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



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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 coming off a lower earnings estimate for 2021.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.2	6.6	9.0	10.3	9.4	8.7	11.4	8.0	5.9	4.0	5.0	7.0
Avg. Yld.	1.6%	2.2%	1.9%	1.8%	2.0%	2.3%	1.8%	2.4%	3.4%	5.7%	4.8%	3.4%

During the past decade shares of Unum have traded hands with an average valuation of about 8 times earnings, with a range from 5 to 12. We are using 7 times earnings as a starting fair value estimate, as interest rates are particularly low and ongoing required reserves serve as an overhang. Still, given the low multiple, this implies the potential for a material valuation tailwind. The well above average dividend yield near 5% helps as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	14%	15%	17%	17%	19%	20%	20%	19%	20%	23%	24%	24%

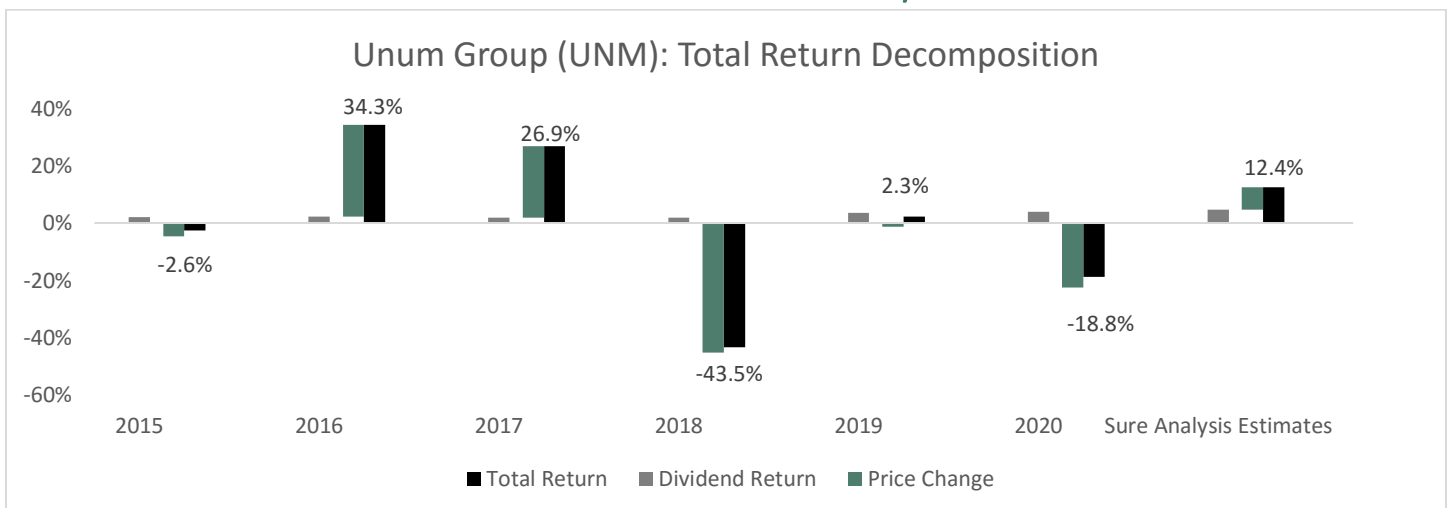
Unum has demonstrated a strong operating history in good times or bad for decades now. During the last recession the company posted earnings-per-share of \$2.19, \$2.51, \$2.57 and \$2.71 during the 2007 throughout 2010 stretch. Furthermore, the dividend kept increasing during this time as well.

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, 2020 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 33% since our last report. 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 around 5 times expected earnings, we are forecasting 12.4% annual total return potential, driven by a 4.8% starting dividend yield, 2% growth rate and the potential for a 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, despite the higher valuation as of late.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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