Aflac Inc. (AFL)

Updated August 2nd, 2021, by Eli Inkrot

Key Metrics

<table>
<thead>
<tr>
<th>Current Price:</th>
<th>$55</th>
<th>5 Year CAGR Estimate:</th>
<th>6.4%</th>
<th>Market Cap:</th>
<th>$38 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Value Price:</td>
<td>$56</td>
<td>5 Year Growth Estimate:</td>
<td>4.0%</td>
<td>Ex-Dividend Date:</td>
<td>08/17/21</td>
</tr>
<tr>
<td>% Fair Value:</td>
<td>99%</td>
<td>5 Year Valuation Multiple Estimate:</td>
<td>0.2%</td>
<td>Dividend Payment Date:</td>
<td>09/01/21</td>
</tr>
<tr>
<td>Dividend Yield:</td>
<td>2.4%</td>
<td>5 Year Price Target:</td>
<td>$68</td>
<td>Years Of Dividend Growth:</td>
<td>39</td>
</tr>
<tr>
<td>Dividend Risk Score:</td>
<td>A</td>
<td>Retirement Suitability Score:</td>
<td>A</td>
<td>Last Dividend Increase:</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

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 $38 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 July 28th, 2021, Aflac released Q2 2021 results for the period ending June 30th, 2021. For the quarter the company reported $5.56 billion in revenue, representing a 2.9% increase compared to Q2 2020. Net earnings equaled $1.11 billion on $1.62 per share compared to $1.12 in Q2 2020.

Adjusted earnings-per-share equaled $1.59 compared to $1.28 in Q2 2020.

Growth on a Per-Share Basis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>$2.09</td>
<td>$2.93</td>
<td>$3.09</td>
<td>$3.08</td>
<td>$3.08</td>
<td>$3.40</td>
<td>$3.41</td>
<td>$4.17</td>
<td>$4.44</td>
<td>$4.96</td>
<td>$5.60</td>
<td>$6.81</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPS</td>
<td>$0.62</td>
<td>$0.67</td>
<td>$0.71</td>
<td>$0.75</td>
<td>$0.79</td>
<td>$0.83</td>
<td>$0.87</td>
<td>$1.04</td>
<td>$1.08</td>
<td>$1.12</td>
<td>$1.32</td>
<td>$1.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares¹</td>
<td>933</td>
<td>936</td>
<td>919</td>
<td>885</td>
<td>849</td>
<td>812</td>
<td>781</td>
<td>755</td>
<td>727</td>
<td>692</td>
<td>680</td>
<td>630</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 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 an uptick in 2021 earnings to go along with a 4% annual growth rate over the intermediate term.

Valuation Analysis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. P/E</td>
<td>11.3</td>
<td>7.9</td>
<td>9.4</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>11.4</td>
<td>10.8</td>
<td>11.6</td>
<td>8.0</td>
<td>9.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Avg. Yld.</td>
<td>2.6%</td>
<td>2.9%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>2.1%</td>
<td>2.8%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

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.
Aflac Inc. (AFL)

Updated August 2nd, 2021, 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 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 10 times our earnings estimate, this implies little change from the valuation.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payout</td>
<td>30%</td>
<td>23%</td>
<td>23%</td>
<td>24%</td>
<td>26%</td>
<td>24%</td>
<td>26%</td>
<td>25%</td>
<td>24%</td>
<td>23%</td>
<td>24%</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>

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

After being up 37% and 14% in our two previous reports, shares are up marginally in the last three months. Aflac has a solid business model and great dividend growth record. Total return potential comes in at 6.4% per annum, driven by the 4% growth rate and 2.4% starting dividend yield. Shares earn a hold rating.

Total Return Breakdown by Year

![Total Return Breakdown by Year](chart.png)

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 August 2nd, 2021, by Eli Inkrot

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.

Income Statement Metrics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>22090</td>
<td>25272</td>
<td>23827</td>
<td>22606</td>
<td>20811</td>
<td>22489</td>
<td>21600</td>
<td>21758</td>
<td>22307</td>
<td>22120</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1937</td>
<td>2866</td>
<td>3158</td>
<td>2951</td>
<td>2533</td>
<td>2659</td>
<td>4604</td>
<td>2920</td>
<td>3304</td>
<td>4778</td>
</tr>
<tr>
<td>Net Margin</td>
<td>8.8%</td>
<td>11.3%</td>
<td>13.3%</td>
<td>13.1%</td>
<td>12.2%</td>
<td>11.8%</td>
<td>14.8%</td>
<td>21.6%</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>10842</td>
<td>14952</td>
<td>10547</td>
<td>6550</td>
<td>6776</td>
<td>5987</td>
<td>6128</td>
<td>---</td>
<td>---</td>
<td>5958</td>
</tr>
<tr>
<td>Income Tax</td>
<td>1013</td>
<td>1436</td>
<td>1658</td>
<td>1540</td>
<td>1329</td>
<td>1408</td>
<td>-586</td>
<td>1063</td>
<td>1141</td>
<td>-619</td>
</tr>
</tbody>
</table>

Balance Sheet Metrics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets ($B)</td>
<td>116.2</td>
<td>131.09</td>
<td>121.31</td>
<td>119.77</td>
<td>118.26</td>
<td>129.82</td>
<td>137.22</td>
<td>140.41</td>
<td>152.77</td>
<td>165.09</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>2249</td>
<td>2041</td>
<td>2543</td>
<td>4658</td>
<td>4350</td>
<td>4859</td>
<td>3491</td>
<td>---</td>
<td>---</td>
<td>5141</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>680</td>
<td>976</td>
<td>1165</td>
<td>842</td>
<td>705</td>
<td>669</td>
<td>827</td>
<td>---</td>
<td>---</td>
<td>796</td>
</tr>
<tr>
<td>Total Liab. ($B)</td>
<td>103.3</td>
<td>115.12</td>
<td>106.69</td>
<td>101.42</td>
<td>100.55</td>
<td>109.34</td>
<td>112.62</td>
<td>116.94</td>
<td>123.81</td>
<td>131.53</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>3275</td>
<td>4343</td>
<td>4891</td>
<td>5268</td>
<td>4951</td>
<td>5339</td>
<td>5267</td>
<td>5778</td>
<td>6569</td>
<td>7745</td>
</tr>
<tr>
<td>Shareholder’s Equity</td>
<td>12946</td>
<td>15978</td>
<td>14620</td>
<td>18347</td>
<td>17708</td>
<td>20482</td>
<td>24598</td>
<td>23462</td>
<td>28959</td>
<td>33560</td>
</tr>
<tr>
<td>D/E Ratio</td>
<td>0.25</td>
<td>0.27</td>
<td>0.33</td>
<td>0.29</td>
<td>0.28</td>
<td>0.26</td>
<td>0.21</td>
<td>0.25</td>
<td>0.23</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Profitability & Per Share Metrics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>1.8%</td>
<td>2.3%</td>
<td>2.5%</td>
<td>2.4%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>3.4%</td>
<td>2.1%</td>
<td>2.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>16.1%</td>
<td>19.8%</td>
<td>20.6%</td>
<td>17.9%</td>
<td>14.1%</td>
<td>13.9%</td>
<td>20.4%</td>
<td>12.2%</td>
<td>12.6%</td>
<td>15.3%</td>
</tr>
<tr>
<td>ROIC</td>
<td>12.8%</td>
<td>15.7%</td>
<td>15.9%</td>
<td>13.7%</td>
<td>10.9%</td>
<td>11.0%</td>
<td>16.5%</td>
<td>9.9%</td>
<td>10.2%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Shares Out.</td>
<td>933</td>
<td>936</td>
<td>919</td>
<td>885</td>
<td>849</td>
<td>812</td>
<td>781</td>
<td>755</td>
<td>727</td>
<td>717</td>
</tr>
<tr>
<td>FCF/Share</td>
<td>11.55</td>
<td>15.93</td>
<td>11.28</td>
<td>7.21</td>
<td>7.82</td>
<td>7.23</td>
<td>7.68</td>
<td>---</td>
<td>---</td>
<td>7.23</td>
</tr>
</tbody>
</table>

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