



Aegon N.V. (AEG)

Updated September 5th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$4.40	5 Year CAGR Estimate:	12.6%	Market Cap:	\$9.1 B
Fair Value Price:	\$5.20	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	8/23/2022 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	9/21/2022
Dividend Yield:	4.8%	5 Year Price Target	\$6.60	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

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.

In mid-August, Aegon reported (8/11/22) financial results for the second quarter of fiscal 2022. Its operating income dipped -11% over last year's quarter due to lower fees from equity markets amid adverse stock market movements as well as lower investment income. The headwind from high COVID-19 claims has weighed on the results in recent quarters and is likely to persist for a while. Due to disappointing performance, we have lowered our forecast for earnings-per-share this year from \$0.90 to \$0.65. On the bright side, the company raised its guidance for capital generation in 2022 from €1.2 billion to €1.4 billion. It also remains on track to deliver €400 million of expense savings (compared to 2019) by the end of next year. Moreover, management stated that it is taking actions to reduce the sensitivity of the results of the company to Dutch Life and U.S. variable annuity businesses. It is making these efforts in order to reduce the volatility in business performance, but we believe Aegon has a long way to go to achieve this.

Like other life insurers, Aegon is hurt by the pandemic. Management cut the annual dividend by -79% in 2020, from \$0.33 to \$0.07. However, Aegon is currently recovering thanks to the containment of the pandemic.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.04	\$0.62	\$0.42	\$0.12	\$0.19	\$0.86	\$1.02	\$0.90	\$0.03	\$0.95	\$0.65	\$0.83
DPS	\$0.26	\$0.30	\$0.29	\$0.27	\$0.29	\$0.30	\$0.33	\$0.33	\$0.07	\$0.17	\$0.21	\$0.31
Shares²	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050	2,058	2,051	2,050	2,050

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 33% over the last decade. This trend may continue, presenting a meaningful headwind to per-share growth. Nevertheless, due to the low comparison base formed this year, we expect 5% 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.

¹ Semiannual dividend.

² 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.3	10.1	14.8	23.2	34.8	16.4	6.2	5.2	---	4.9	6.8	8.0
Avg. Yld.	2.4%	3.7%	3.5%	4.1%	6.0%	5.4%	5.2%	7.0%	2.2%	3.6%	4.8%	4.6%

Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. The stock is currently trading at a price-to-earnings ratio of 6.8. The cheap valuation has resulted primarily due to fears of an upcoming recession, as central banks have begun to raise interest rates in an effort to stop inflation from soaring. We assume a fair 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 3.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

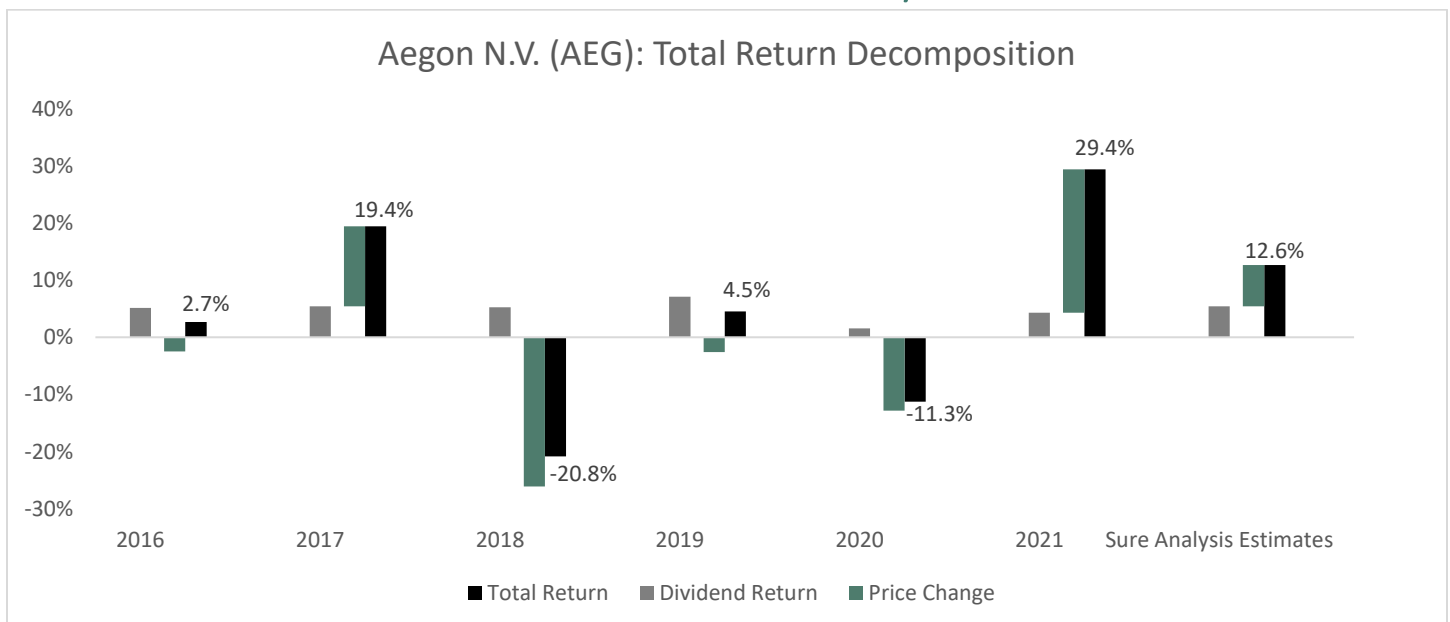
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	25%	48%	69%	225%	153%	35%	32%	37%	233%	17.9%	32.3%	37.2%

Aegon faces intense competition 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 vulnerable to the pandemic. The dividend cut in 2020 and the absence of dividends in 2009-2010 are harsh reminders of the vulnerability of Aegon to recessions.

Final Thoughts & Recommendation

Aegon could offer a 12.6% average annual return over the next five years thanks to 5.0% earnings growth, its 4.8% dividend and a 3.4% valuation tailwind. However, it has a 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 after the bottom of the pandemic is a clear signal of the upside potential in the event of sustained global economic growth, but it also reflects the vulnerability of Aegon to downturns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	59,885	64,317	61,619	41,978	58,838	65,742	24,752	75,360	58,343	54,590
SG&A Exp.	3,926	4,201	4,248	3,948	3,940	4,143	4,178	4,126	4,098	4,115
D&A Exp.	1,593	1,343	1,255	1,686	1,337	884	1,553	1,327	825	1,381
Net Profit	2,098	1,309	1,017	(479)	484	2,796	834	1,383	(167)	2,343
Net Margin	3.5%	2.0%	1.7%	-1.1%	0.8%	4.3%	3.4%	1.8%	-0.3%	4.3%
Free Cash Flow	(1,705)	(2,788)	5,342	857	3,573	506	465	8,009	(3,396)	(2,258)
Income Tax	478	266	201	(92)	190	74	46	243	(262)	439

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	480.1	485.9	515.7	454.2	449.7	475.0	449.1	493.3	545.9	530.2
Cash & Equivalents	12,683	12,011	12,901	11,825	15,116	12,917	13,735	17,410	15,440	7,800
Acc. Receivable	---	7,265	---	5,680	9,018	---	6,885	7,455	8,396	6,365
Goodwill & Int.	3,314	3,137	2,521	2,078	1,924	1,959	1,976	1,746	1,705	1,509
Total Liab. (\$B)	445.7	454.5	482.1	425.5	424.0	446.1	423.3	465.9	515.5	500.3
Accounts Payable	---	4,674	---	2,774	4,449	---	3,285	3,647	3,385	3,487
Long-Term Debt	17,743	16,845	18,299	14,744	15,017	17,434	15,631	13,115	13,292	13,565
Total Equity	34,458	31,358	33,652	28,689	25,708	28,864	25,761	27,356	30,240	29,637
LTD/E Ratio	0.51	0.54	0.54	0.51	0.58	0.60	0.61	0.48	0.44	0.46

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.5%	0.3%	0.2%	-0.1%	0.1%	0.6%	0.2%	0.3%	0.0%	0.4%
Return on Equity	6.2%	4.0%	3.1%	-1.5%	1.8%	10.2%	3.1%	5.2%	-0.6%	7.8%
ROIC	4.2%	2.6%	2.0%	-1.0%	1.1%	6.4%	1.9%	3.4%	-0.4%	5.4%
Shares Out.	1,504	1,894	2,109	2,116	2,062	2,056	2,050	2,050	2,058	2,051
Revenue/Share	31.40	26.79	23.04	15.63	22.43	25.12	9.49	28.83	22.40	20.98
FCF/Share	(0.89)	(1.16)	2.00	0.32	1.36	0.19	0.18	3.06	(1.30)	(0.87)

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

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