Assured Guaranty Ltd. (AGO)

Updated September 17th, 2022, by Tiago Dias

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	-7.3%	**Market Cap:**	$3.5 B
Fair Value Price:	$32	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	11/16/2022[1]
% Fair Value:	169%	**5 Year Valuation Multiple Estimate:**	-10.0%	**Dividend Payment Date:**	12/01/2022[1]
Dividend Yield:	1.9%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Assured Guaranty Ltd. (AGO) is a Bermuda-based holding company that provides, through its subsidiaries, credit protection products and asset management services. The company provides credit protection products to the US and international public finance and structured finance markets and manages assets across collateralized loan obligations as well as other funds. Incorporated in 2003, this $3.5 billion market cap company has raised its dividend every year for the past 11 years.

Assured Guaranty Ltd. reported Q2 2022 earnings on August 3rd, 2022. For the quarter, earnings-per-share equalled a $0.74 loss per share, the bulk of which is the result of after-tax losses related to FX remeasurement, alternative investments, available-for-sale investments, and trading securities. The company issued a $0.25 dividend during the quarter. The company's 2nd quarter was heavily impacted by unrealized losses in the investment portfolio as a result of the rising interest rate environment. The company again led the U.S. municipal bond insurance market, where industry penetration reached 8.9% of new-issue par sold in the 2nd quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.57	$4.30	$6.26	$7.08	$6.56	$5.96	$4.68	$4.00	$4.19	$5.23	***$3.55***	***$3.55***
DPS	$0.36	$0.40	$0.44	$0.48	$0.52	$0.57	$0.64	$0.72	$0.80	$0.88	***$1.00***	***$1.00***
Shares	194	182	158	138	128	116	103	93	77	67	***65.0***	***50.0***

While the 28% average annual growth rate in earnings during the 2012 to 2021 period may seem impressive at first, a quick look will immediately see that such a growth rate is inflated by unusually low earnings in 2012. When we discard that outlier, we can see that the company has been flat, or even had its earnings decrease during the time period, with the past 5 years being particularly hard hitting, with their EPS shrinking almost 10% per year.

For such a mature and well-established industry, it is normal for growth to not be particularly spectacular, however AGO has failed to live up to its peer's performance over the past 5 years, and arguably the past decade. While there are some bright spots, and potential turnaround moments, particularly with the settlement of its Puerto Rico business, we are not confident that the company will be able to break from its current shrinking trajectory.

For these reasons we are estimating 0% growth in earnings, and subsequently 0% growth in its dividend. This means we expect EPS in 2027 to be around $3.55 per share, with a dividend payment of around $1.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	24.9	4.8	3.8	3.7	4.2	6.6	8.1	11.1	7.2	8.4	***15.2***	***9.0***
Avg. Yld.	2.5%	1.9%	1.8%	1.8%	1.9%	1.4%	1.7%	1.6%	2.7%	2.0%	***1.9%***	***3.1%***

[1] Estimated date.

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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AGO is currently trading at around 15 times earnings, well above its historical average. Given its lackluster performance, we expect that the company will be re-rated back down to closer to its historical norms and trade at a multiple of around 9 times earnings by 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	9%	7%	7%	8%	10%	14%	18%	19%	17%	***28%***	***28%***

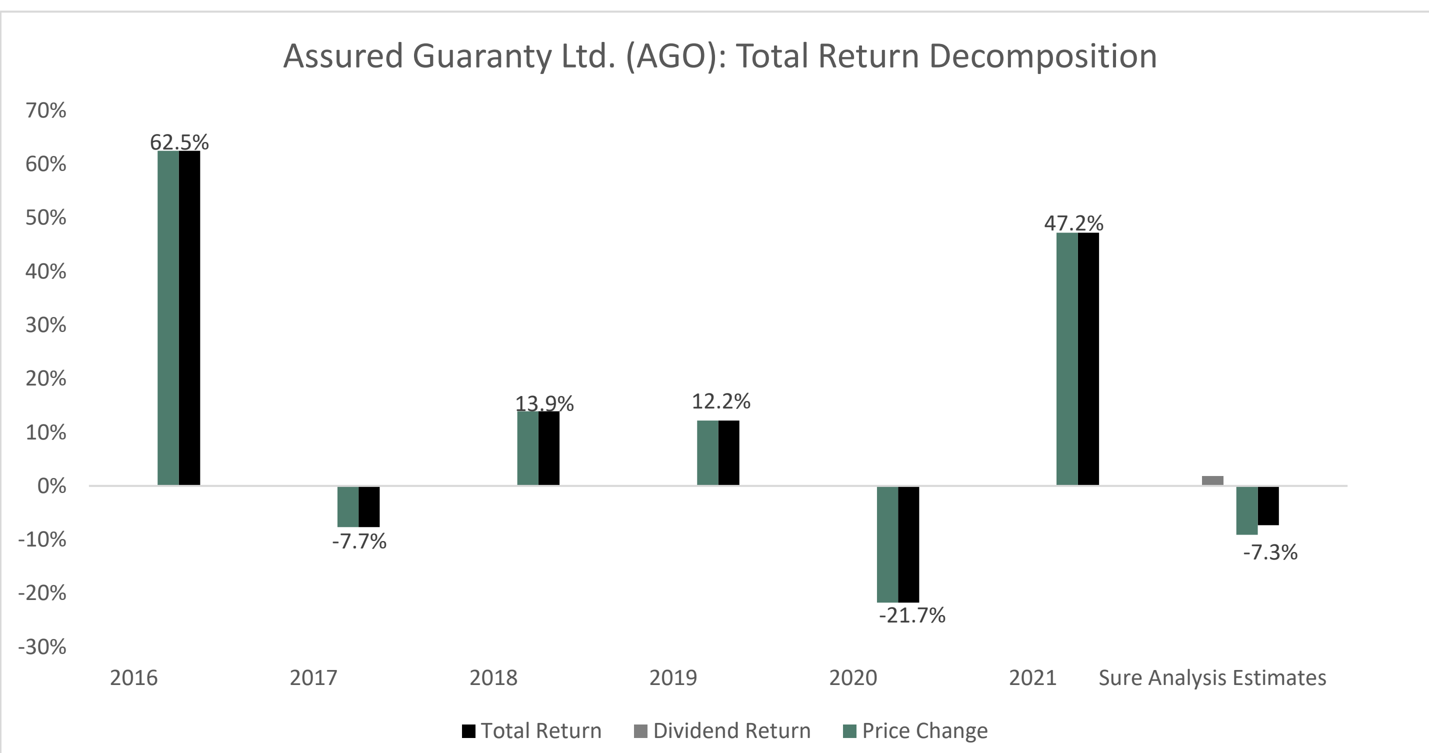
While the company has not seen its earnings meaningfully improve over the past decade, insurance is a well-established and stable business that can provide reliable income for long lengths of time. While it's true that the lack of growth in earnings has been felt, particularly given the increasing dividend which has put pressure on the payout ratio, such pressure has not yet reached the point where the dividend is in danger of a cut.

So long as the management team continues to run a steady ship, the company has more than enough runway to make good on its obligations, dispose of unprofitable business, and find new growth opportunities, in the US or abroad. And indeed, the company's comparatively high profit margins indicates that they do have some sort of competitive advantage when it comes to sourcing and insuring local government bonds and other similar financial products. The management team clearly recognizes this expertise, so it's merely a matter of allocating and transferring these competitive advantages to new and more profitable markets.

Final Thoughts & Recommendation

With an unattractive 1.9% dividend yield, troubled growth prospects and heavy headwinds stemming from a multiple re-rating, we expect the company to provide a negative return over the next 5 years of around -7.3%. For this reason, the company's shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	763	1,262	1,739	1,955	1,380	1,651	987	924	1,084	698
SG&A Exp.						143	152	178	228	230
Net Profit	110	808	1,088	1,056	881	730	521	402	362	389
Net Margin	14.4%	64.0%	62.6%	54.0%	63.8%	44.2%	52.8%	43.5%	33.4%	55.7%
Free Cash Flow	(165)	244	577	(71)	(132)	433	462	(509)	(853)	(1,937)
Income Tax	22	334	443	375	136	261	59	63	45	58

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,242	16,287	14,919	14,544	14,151	14,433	13,603	14,326	15,334	18,208
Cash & Equivalents	138	184	75	166	118	144	104	169	162	120
Acc. Receivable	1,519	1,086	958	888	1,021	1,487	1,394	2,033	2,363	2,173
Goodwill & Int.							24	216	203	175
Total Liabilities	12,248	11,172	9,161	8,481	7,647	7,594	7,048	7,674	8,629	11,708
Accounts Payable	219	148	107	51	64					
Long-Term Debt	836	816	1,297	1,300	1,306	1,292	1,233	1,235	1,224	1,673
Total Equity	4,994	5,115	5,758	6,063	6,504	6,839	6,555	6,639	6,643	6,292
D/E Ratio	0.17	0.16	0.23	0.21	0.20	0.19	0.19	0.19	0.18	0.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.6%	4.8%	7.0%	7.2%	6.1%	5.1%	3.7%	2.9%	2.4%	2.3%
Return on Equity	2.3%	16.0%	20.0%	17.9%	14.0%	10.9%	7.8%	6.1%	5.5%	6.0%
ROIC	1.9%	13.7%	16.8%	14.6%	11.6%	9.2%	6.5%	5.1%	4.6%	4.8%
Shares Out.	194	182	158	138	128	116	103	93	77	67
Revenue/Share	4.00	6.73	10.02	13.12	10.29	13.50	8.87	9.22	12.58	9.39
FCF/Share	(0.87)	1.30	3.32	(0.48)	(0.98)	3.54	4.15	(5.08)	(9.90)	(26.07)

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