



Aflac Inc. (AFL)

Updated February 6th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	2.6%	Market Cap:	\$42.6 B
Fair Value Price:	\$57	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/14/23
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	03/01/23
Dividend Yield:	2.4%	5 Year Price Target	\$69	Years Of Dividend Growth:	41
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

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 \$42.6 billion market cap company generated \$4.2 billion in profit in 2022.

On November 8th, 2022, Aflac declared a \$0.42 quarterly dividend, marking a 5% raise, after a 21% increase in 2021 and a 17.9% increase in 2020. This is the company's 41st straight year of increasing its payment.

On February 1st, 2023, Aflac released fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, the company reported \$4.01 billion in revenue, a -26.2% decline compared to the fourth quarter of 2021. Net earnings equaled \$185 million, or \$0.30 per share, compared to \$1 billion, or \$1.57 per share, in the fourth quarter of 2021. However, this includes investment gains which are excluded from adjusted earnings. On an adjusted basis, earnings-per-share equaled \$1.29 versus \$1.33 prior. Revenue was \$475 million below estimates while adjusted earnings-per-share was \$0.08 more than expected. For the full year, revenue fell 12% to \$19.5 billion while adjusted earnings-per-share of \$5.33 compared to \$5.94 in 2021.

Currency headwinds greatly impacted results. In U.S. dollars, Aflac Japan net premiums decreased 22.9% to \$2.2 billion while Aflac U.S. net earned premiums were down 0.2% to \$1.4 billion. Adjusted book value increased 9.7% to \$43.51 per share. Aflac repurchased 8.9 million shares at an average price of \$67.41 during the quarter. The company has 116.6 million shares, or 18.7% of its outstanding share count, remaining on its repurchase authorization.

Aflac is expected to earn \$5.68 per share in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.09	\$3.08	\$3.08	\$3.40	\$3.41	\$4.17	\$4.44	\$4.96	\$5.94	\$5.33	\$5.68	\$6.91
DPS	\$0.71	\$0.75	\$0.79	\$0.83	\$0.87	\$1.04	\$1.08	\$1.12	\$1.32	\$1.60	\$1.68	\$2.04
Shares¹	919	885	849	812	781	755	727	692	677	625	625	600

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, while 2021 proved to be a standout year. Currency headwinds lowered results in 2022. 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 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 continue to rise in the future. In addition, the share repurchase program has been an important factor as well and we believe it will continue to drive bottom-line results.

¹ In millions.

Disclosure: This analyst has a long position in the security discussed in this research report.



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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 a 4% annual growth rate over the intermediate term.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	9.4	10.0	10.0	10.0	11.4	10.8	11.6	8.0	8.6	13.5	12.1	10.0
Avg. Yld.	2.4%	2.4%	2.6%	2.5%	2.2%	2.3%	2.1%	2.8%	2.5%	2.2%	2.4%	3.0%

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 at 12.1 times our earnings estimate, this implies a valuation headwind. Reverting to our target multiple by 2028 would reduce annual returns by 3.8% for the period. Shares are up \$3, or 4.5%, since our November 1st, 2022 report.

Aflac is a Dividend Aristocrat with a long streak of rising dividends. Moreover, with the company paying out roughly a third 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	24%	26%	24%	26%	25%	24%	23%	22%	30%	30%	30%

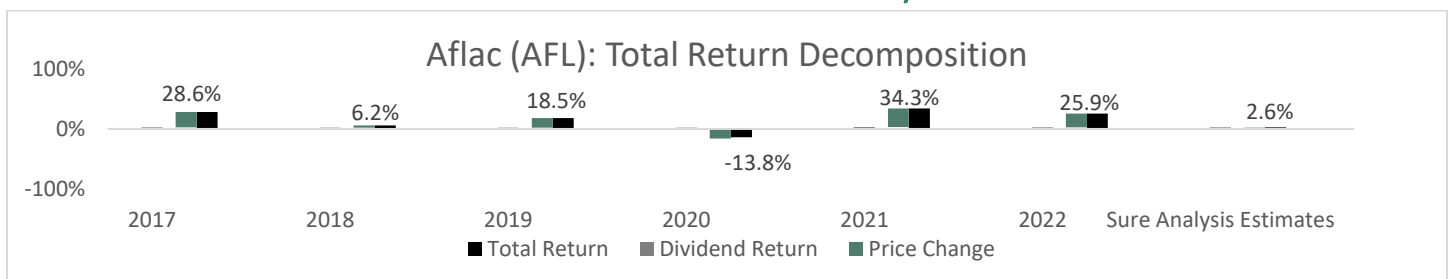
During the Great Recession Aflac generated earnings-per-share of \$1.64, \$1.31, \$1.96, and \$2.57 during the 2007 through 2010 period. Furthermore, the dividend was increasing this entire time. We are encouraged by the past performance and ongoing financial stability, as the company's strong brand 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

Aflac has a solid business model and great dividend growth record. Total return potential comes in at 2.6% per annum, driven by the 4% growth rate and 2.4% starting dividend yield, offset by multiple compression. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	23827	22606	20811	22489	21600	21758	22307	22120	21923	19,502
Net Profit	3158	2951	2533	2659	4604	2920	3304	4778	4325	4,201
Net Margin	13.3%	13.1%	12.2%	11.8%	21.3%	13.4%	14.8%	21.6%	19.7%	21.5%
Free Cash Flow	10547	6550	6776	5987	6128	---	---	5958	5,051	
Income Tax	1658	1540	1329	1408	-586	1063	1141	-619	997	403

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	121.31	119.77	118.26	129.82	137.22	140.41	152.77	165.09	158	131
Cash & Equivalents	2543	4658	4350	4859	3491	---	---	5141	5,051	
Accounts Receivable	1165	842	705	669	827	---	---	796	693	
Total Liab. (\$B)	106.69	101.42	100.55	109.34	112.62	116.94	123.81	131.53	124	108.7
Accounts Payable	---	---	---	---	---	---	---	---	---	
Long-Term Debt	4891	5268	4951	5339	5267	5778	6569	7745	7,839	7,442
Shareholder's Equity	14620	18347	17708	20482	24598	23462	28959	33560	33253	22365
LTD/E Ratio	0.33	0.29	0.28	0.26	0.21	0.25	0.23	0.23	0.24	0.33

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.5%	2.4%	2.1%	2.1%	3.4%	2.1%	2.3%	3.0%	2.7%	2.9%
Return on Equity	20.6%	17.9%	14.1%	13.9%	20.4%	12.2%	12.6%	15.3%	12.9%	15.1%
ROIC	15.9%	13.7%	10.9%	11.0%	16.5%	9.9%	10.2%	12.5%	10.5%	11.9%
Shares Out.	919	885	849	812	781	755	727	717	653	625
Revenue/Share	25.49	24.90	24.02	27.17	27.07	28.09	29.88	30.88	32.40	30.58
FCF/Share	11.28	7.21	7.82	7.23	7.68	---	---	7.23	7.46	2.9%

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

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