Assured Guaranty Ltd. (AGO)

Updated March 4th, 2023, by Tiago Dias

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	-7.2%	**Market Cap:**	$3.6 B
Fair Value Price:	$36	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	03/07/2023
% Fair Value:	167%	**5 Year Valuation Multiple Estimate:**	-9.7%	**Dividend Payment Date:**	03/22/2023
Dividend Yield:	1.7%	**5 Year Price Target**	$36	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 $3.6 billion market cap company has raised its dividend every year for the past 11 years.

Assured Guaranty Ltd. reported Q4 and full year 2022 earnings on February 28th, 2023. For the quarter, earnings-per-share equalled $1.52 per share, well below the $3.74 per share reported in the same period in 2021. For the full year, the company reported GAAP EPS of $1.92, below the $5.23 reported in the prior year. The company issued a $0.28 dividend to be paid in March.

The management team was satisfied with the performance, with the CEO Dominic Frederico noting that 2022 marked the 5th consecutive year in which the company generated more than $350 million of GWP and PVP. The company returned $567 million to shareholders with a combination of dividends and share buybacks, having reduced shares outstanding by almost 13% from year-end 2021.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.30	$6.26	$7.08	$6.56	$5.96	$4.68	$4.00	$4.19	$5.23	$1.92	***$4.00***	***$4.00***
DPS	$0.40	$0.44	$0.48	$0.52	$0.57	$0.64	$0.72	$0.80	$0.88	$1.00	***$1.04***	***$1.04***
Shares	182	158	138	128	116	103	93	77	67	64	***61.0***	***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 peers' 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 2028 to be around $4.00 per share, with a dividend payment of around $1.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	4.8	3.8	3.7	4.2	6.6	8.1	11.1	7.2	8.4	29.2	***15.0***	***9.0***
Avg. Yld.	1.9%	1.8%	1.8%	1.9%	1.4%	1.7%	1.6%	2.7%	2.0%	1.8%	***1.7%***	***2.9%***

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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 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	7%	7%	8%	10%	14%	18%	19%	17%	52%	***26%***	***26%***

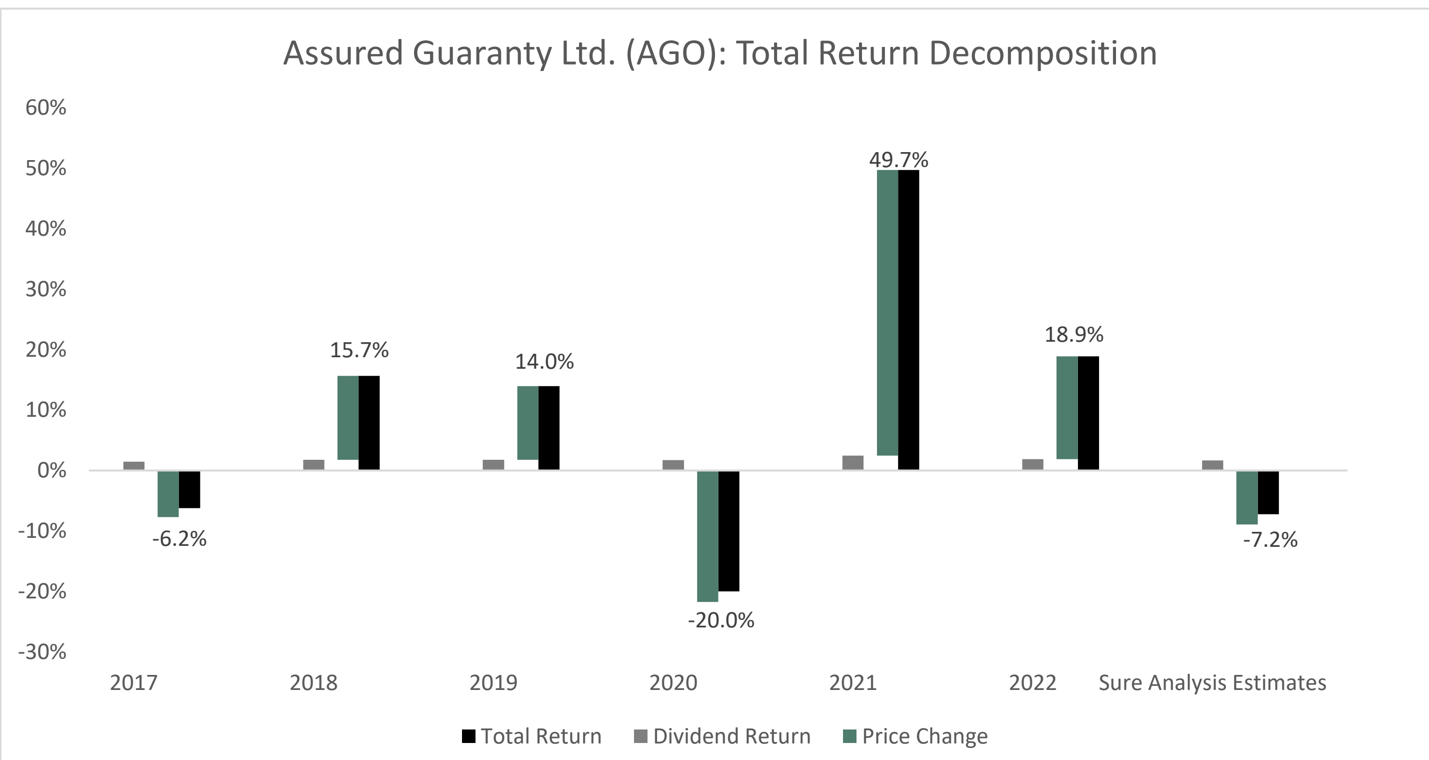
While the company has not seen its earnings meaningfully improve over the past decade, insurance is a well-established and stable business that can provide reliable income for long lengths of time. While it's true that the lack of growth in earnings has been felt, particularly given the increasing dividend 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 indicate 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 1.7% 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 -7.2%. For this reason, the company's shares earn a sell rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,262	1,739	1,955	1,380	1,651	987	924	1,084	698	684
SG&A Exp.					143	152	178	228	230	258
Net Profit	808	1,088	1,056	881	730	521	402	362	389	124
Net Margin	64.0%	62.6%	54.0%	63.8%	44.2%	52.8%	43.5%	33.4%	55.7%	18.1%
Free Cash Flow	244	577	(71)	(132)	433	462	(509)	(853)	(1,937)	(2,479)
Income Tax	334	443	375	136	261	59	63	45	58	11

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,287	14,919	14,544	14,151	14,433	13,603	14,326	15,334	18,208	16,843
Cash & Equivalents	184	75	166	118	144	104	169	162	120	107
Acc. Receivable	1,086	958	888	1,021	1,487	1,394	2,033	2,363	2,173	1,555
Goodwill & Int.						24	216	203	175	163
Total Liabilities	11,172	9,161	8,481	7,647	7,594	7,048	7,674	8,629	11,708	11,551
Accounts Payable	148	107	51	64	---	---	---	---	---	---
Long-Term Debt	816	1,297	1,300	1,306	1,292	1,233	1,235	1,224	1,673	1,675
Total Equity	5,115	5,758	6,063	6,504	6,839	6,555	6,639	6,643	6,292	5,064
D/E Ratio	0.16	0.23	0.21	0.20	0.19	0.19	0.19	0.18	0.27	0.33

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.8%	7.0%	7.2%	6.1%	5.1%	3.7%	2.9%	2.4%	2.3%	0.7%
Return on Equity	16.0%	20.0%	17.9%	14.0%	10.9%	7.8%	6.1%	5.5%	6.0%	2.2%
ROIC	13.7%	16.8%	14.6%	11.6%	9.2%	6.5%	5.1%	4.6%	4.8%	1.6%
Shares Out.	182	158	138	128	116	103	93	77	67	64
Revenue/Share	6.73	10.02	13.12	10.29	13.50	8.87	9.22	12.58	9.39	10.70
FCF/Share	1.30	3.32	(0.48)	(0.98)	3.54	4.15	(5.08)	(9.90)	(26.07)	(38.80)

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