Aegon N.V. (AEG)

Updated August 29th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$6.10	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$10.0 B
Fair Value Price:	$4.80	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	9/5/2024
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	9/26/2024
Dividend Yield:	5.7%	**5 Year Price Target**	$5.30	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**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 Depository Receipts that trade on the New York Stock Exchange under the ticker AEG with a market cap of $10.0 billion.

In late August, Aegon reported (8/22/24) financial results for the first half of fiscal 2024. The company faced high mortality rates in the U.S. and hence it incurred losses in its U.S. insurance business. Nevertheless, management stated that it remains on track for its full-year guidance of operating capital of €1.1 billion. In addition, management reiterated that it expects to raise the annual dividend to about €0.40 in the upcoming years, but we remain cautious, given the choppy results. Aegon has also repeatedly stated that it is taking actions to reduce the volatility in business performance, but we believe Aegon has a long way to go to achieve this. The disappointing performance in the second half of 2023 and in the first half of this year is a testament to the risk of the stock. Aegon has vastly underperformed the S&P 500 over the last decade (-26% vs. +179%) due to its poor business performance.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.42	$0.12	$0.19	$0.86	$1.02	$0.90	$0.03	$0.95	$0.95	-$0.13	***$0.60***	***$0.66***
DPS	$0.29	$0.27	$0.29	$0.30	$0.33	$0.33	$0.07	$0.17	$0.21	$0.28	***$0.35***	***$0.39***
Shares[1]	2,109	2,116	2,062	2,056	2,050	2,050	2,058	2,051	2,025	1,815	***1,800***	***1,800***

Aegon has a poor performance record, as it has not generated consistent earnings growth over full economic cycles. In addition, the company is currently facing a headwind due to highly volatile financial markets, which have led investors to reduce their transactions. As a result, Aegon has been receiving lower transaction fees in recent quarters. Due to unreliable business performance, we expect 2% 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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.8	23.2	34.8	16.4	6.2	5.2	---	4.9	5.1	---	***10.2***	***8.0***
Avg. Yld.	3.5%	4.1%	6.0%	5.4%	5.2%	7.0%	2.2%	3.6%	4.3%	5.6%	***5.7%***	***7.3%***

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.

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Aegon's historical valuation has been volatile as its fundamental performance has fluctuated tremendously. The stock is currently trading at a forward price-to-earnings ratio of 10.2. We assume a fair price-to-earnings ratio of 8.0 for Aegon. If the stock trades at a price-to-earnings ratio of 8.0 in five years, it will incur a -4.7% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

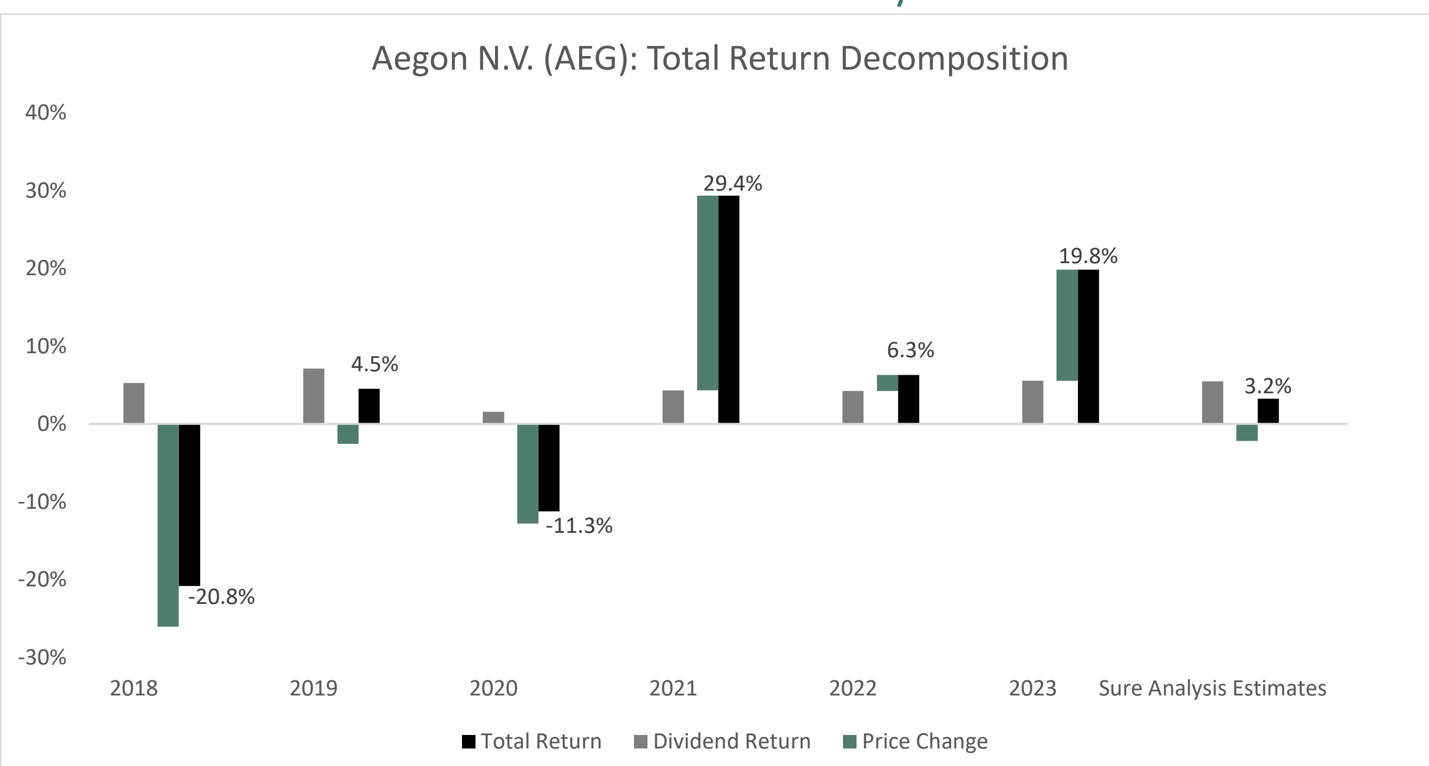
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2029**
Payout	69%	225%	153%	35%	32%	37%	233%	17.9%	22.1%	---	***58%***	***58%***

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 proved 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. The vast underperformance vs. the S&P 500 over the long run (-26% vs. +179%) is another proof of the risk of the stock.

Final Thoughts & Recommendation

Aegon has rallied 19% in the last 12 months thanks to an expected recovery of its business. It could offer just a 3.2% average annual return over the next five years, as its 2.0% earnings growth and its 5.7% dividend may be partly offset by a -4.7% valuation headwind. Moreover, Aegon has a volatile performance record, and its stock price is much more volatile than the broad market. It thus receives a marginal hold rating. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	61,619	41,978	58,838	65,742	24,752	75,360	58,343	54,590	-16,711	31,985
SG&A Exp.	4,248	3,948	3,940	4,143	4,178	4,126	4,098	4,115	3,085	3,293
D&A Exp.	1,255	1,686	1,337	884	1,553	1,327	825	1,381	178	(176)
Net Profit	1,017	(479)	484	2,796	834	1,383	(167)	2,343	(1,511)	(194)
Net Margin	1.7%	-1.1%	0.8%	4.3%	3.4%	1.8%	-0.3%	4.3%	9.0%	-0.6%
Free Cash Flow	5,342	857	3,573	506	465	8,009	(3,396)	(2,258)	2903	810
Income Tax	201	(92)	190	74	46	243	(262)	439	(546)	(226)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	515.7	454.2	449.7	475.0	449.1	493.3	545.9	530.2	430.9	333.4
Cash & Equivalents	12,901	11,825	15,116	12,917	13,735	17,410	15,440	7,800	3,654	4,503
Acc. Receivable	---	5,680	9,018	---	6,885	7,455	8,396	6,365	9,523	3,943
Goodwill & Int.	2,521	2,078	1,924	1,959	1,976	1,746	1,705	1,509	1,330	557
Total Liab. ($B)	482.1	425.5	424.0	446.1	423.3	465.9	515.5	500.3	415.7	322.8
Accounts Payable	---	2,774	4,449	---	3,285	3,647	3,385	3,487	2,329	2,337
Long-Term Debt	18,299	14,744	15,017	17,434	15,631	13,115	13,292	13,565	6,932	5,208
Total Equity	33,652	28,689	25,708	28,864	25,761	27,356	30,240	29,637	15,029	10,420
LTD/E Ratio	0.54	0.51	0.58	0.60	0.61	0.48	0.44	0.46	0.46	0.50

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.2%	-0.1%	0.1%	0.6%	0.2%	0.3%	0.0%	0.4%	-0.3%	-0.1%
Return on Equity	3.1%	-1.5%	1.8%	10.2%	3.1%	5.2%	-0.6%	7.8%	-6.8%	-1.7%
ROIC	2.0%	-1.0%	1.1%	6.4%	1.9%	3.4%	-0.4%	5.4%	-4.6%	-1.1%
Shares Out.	2,109	2,116	2,062	2,056	2,050	2,050	2,058	2,051	2,546	2,369
Revenue/Share	23.04	15.63	22.43	25.12	9.49	28.83	22.40	20.98	(6.56)	13.50
FCF/Share	2.00	0.32	1.36	0.19	0.18	3.06	(1.30)	(0.87)	1.14	0.34

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