

American International Group

Underwriting margin continues to improve in 3Q23

Reiterate Rating: BUY | PO: 73.00 USD | Price: 62.05 USD

3Q23 operating EPS of \$1.61

AIG's 3Q23 EPS result exceeded consensus expectations, but fell short of our high-on-the-Street forecast of \$1.70. From a high level, P&C operations beat out forecast while its consolidated share in Corebridge's life earnings fell modestly short with an additional drag from corporate revenues at multi-year lows. In P&C insurance, catastrophe losses of \$425mn were below our forecast of \$491mn, while favorable reserve development of \$139mn exceeded our forecast of \$40mn. Most prior-accident years posted favorability in 3Q23 and 9M23. Compared with 88.0% in 2Q23 and 88.4% in 3Q22, Underlying P&C margins improved by over 100bps year-over-year to 86.3%, consisting of about 200bps in loss ratio improvement offset by about 100bps of expense ratio increase.

P&C premium growth begins to decelerate

Similar to some other carriers that have described a market with attractive and improving pricing conditions, AIG was not able to convert that into growth. Net written premium was up just 0.9%, decelerating from 9.8% in 2Q23. This was principally driven by double-digit premium declines in specialty lines and financial lines partly offset by double-digit premium increases in property business. Additionally, AIG's accident and health businesses saw significant premium growth as the term structure of its reinsurance arrangements for private client group personal business continue to evolve.

Spread earnings improve amidst higher benefit payments

The higher interest rate environment continues to lift the earnings power at Corebridge/AIG life. However, in 3Q23, higher lumpy claim payments in Institutional Markets offset the better trend, creating a miss vs. our forecast. Individual Retirement net flows trended further to the negative (-\$743mn) as in Q23 with widening outflows in fixed and variable annuities offset by inflows in fixed index annuities. Likewise, Group Retirement outflows of \$2.2bn exceeded \$800mn in 3Q22 and \$1.7bn in 2Q23.

Price objective remains \$73; reiterate Buy

Our 2024 and 2025 EPS forecasts fall as we reduce our expectation for corporate segment revenues. However, our price objective based on a sum-of-the-parts for its 64% stake in Corebridge, the present value of the DTA and a peer equivalent P/E multiple on 2024 earnings (at 10.4x up from 10x previously), stays unchanged due to the peer multiple expansion. AIG continues to deliver margin improvement in excess of peers, and, with healthy potential upside to our PO, we continue to rate shares as Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.12	4.55	6.85	8.10	8.85
GAAP EPS	10.82	13.01	7.08	8.10	8.85
EPS Change (YoY)	103.2%	-11.1%	50.5%	18.2%	9.3%
Consensus EPS (Bloomberg)			6.58	7.71	8.61
DPS	1.28	1.28	1.40	1.50	1.58
Valuation (Dec)					
P/E	12.1x	13.6x	9.1x	7.7x	7.0x
GAAP P/E	5.7x	4.8x	8.8x	7.7x	7.0x
Dividend Yield	2.1%	2.1%	2.3%	2.4%	2.5%

02 November 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E EPS	6.95	6.85
2024E EPS	8.65	8.10
2025E EPS	9.65	8.85

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Stock Data

Price	62.05 USD
Price Objective	73.00 USD
Date Established	11-Oct-2023
Investment Opinion	B-1-7
52-Week Range	45.66 USD - 64.88 USD
Mkt Val (mn) / Shares Out (mn)	44,173 USD / 711.9
Average Daily Value (mn)	188.40 USD
BofA Ticker / Exchange	AIG / NYS
Bloomberg / Reuters	AIG US / AIG.N
ROE (2023E)	15.0%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 02 November 2023 12:05AM EDT

iQprofileSM American International Group

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	34,137	33,820	36,175	35,075	35,041
Net Investment Income	12,825	10,729	12,798	13,955	14,593
Total Revenue	50,888	53,110	49,236	50,483	51,110
Total Cost of Benefits and Claims	(28,041)	(26,747)	(29,103)	(29,067)	(29,100)
S,G & A (Including Commissions)	(9,550)	(9,655)	(1,639)	(1,608)	(1,614)
Total Operating Expenses	(40,650)	(39,418)	(33,723)	(33,380)	(32,995)
Pre-Tax Operating Earnings	10,238	13,692	15,513	17,102	18,115
Income Tax Expense	(1,148)	(1,134)	(1,641)	(1,717)	(1,827)
Operating Earnings After Tax	4,430	3,588	4,957	5,390	5,610
Net Income (Reported)	8,777	12,167	13,218	14,686	15,489
Diluted Shares	865	788	724	665	634
Operating Earnings Per Share	5.12	4.55	6.85	8.10	8.85
Net Income (Reported) Per Share	10.82	13.01	7.08	8.10	8.85

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	283,480	230,641	NA	NA	NA
Total Cash and Investments	361,490	311,193	206,462	205,062	203,662
Total Assets	596,112	526,634	420,666	421,808	424,822
Reserves	59,950	59,223	52,166	54,166	56,166
LT Debt	23,741	21,299	24,055	24,055	24,055
Total Liabilities	527,200	484,399	377,401	377,401	377,401
Total Equity	68,912	42,235	43,265	44,407	47,421
Total Equity (Ex FAS 115)	68,912	42,235	43,265	44,407	47,421
Book Value per Share (Reported)	79.97	53.83	57.56	63.93	70.99
Book Value per Share (Ex FAS 115)	71.80	83.92	90.34	99.32	107.58

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	38.1%	38.1%	6.4%	6.3%	6.1%
Loss Ratio	64.2%	60.8%	60.3%	62.4%	62.9%
Combined Ratio	102.4%	98.9%	66.6%	68.7%	69.0%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	8.7x	10.1x	11.1x	9.6x	9.2x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	9.6%	-0.9%	7.0%	-3.0%	-0.1%
Net Investment Income	8.6%	-16.3%	19.3%	9.0%	4.6%
Total Revenue	17.1%	4.4%	-7.3%	2.5%	1.2%
Operating Earnings per Share	103.2%	-11.1%	50.5%	18.2%	9.3%
Asset	1.6%	-11.7%	-20.1%	0.3%	0.7%
Reported Book Value per Share	4.6%	-32.7%	6.9%	11.1%	11.0%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	6.8%	9.2%	15.0%	12.2%	11.9%
Operating ROE (Ex FAS 115)	6.6%	8.6%	15.0%	12.2%	11.9%
Operating Return on Average Assets	0.7%	0.6%	1.0%	1.3%	1.3%
Operating Margin	8.7%	6.8%	10.1%	10.7%	11.0%
Long Term Debt to Cap Ratio (Ex FAS 115)	25.6%	33.5%	35.7%	35.1%	33.7%
Net Income % Operating Income	204.5%	349.2%	279.3%	285.1%	290.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

AIG is a multi-line insurer with a global P&C footprint specializing in commercial and personal lines. The life and retirement business is U.S. centric, with a large presence in fixed annuities and group retirement. Following a government bailout during the '08/'09 financial crisis, AIG has struggled to reach levels of profitability delivered by peers. The recent AIG200 initiative aims to right-size AIG's cost structure following years of business sales and the introductions of new technologies.

Investment Rationale

Compared with commercial P&C peers, AIG appears poised for better EPS growth even as the insurance cycle seems past peak. We believe the company has material opportunities for cost rationalization as it executes on its post-life separation restructuring plan. We expect that material the repurchase efforts will serve to further lift EPS, while execution at Corebridge can also lift the value of its 76% stake.

Stock Data

Average Daily Volume

3,036,309

Quarterly Earnings Estimates

	2022	2023
Q1	1.30A	1.63A
Q2	1.22A	1.75A
Q3	0.66A	1.61A
Q4	1.36A	1.86E



Price objective basis & risk

American International Group (AIG)

We arrive at a price objective of \$73, based on a sum-of-the-parts valuation including 1) our expected value of AIG's 64% stake in Corebridge, 2) an expectation that AIG's P&C businesses now unencumbered would take at a peer P/E multiple (currently 10.4x 2024E) and 3) a time-value discounted multiple for its deferred tax assets. We also note that, while the stock currently trades below book value, the traditional 1x book backstop tends to have less meaning broadly in times of crisis and hasn't acted as a backstop for AIG's valuation in particular much over the past few years.

A bi-directional risk comes from the greater clarity as regards inflation. Currently an overhang on the stock, investors fear that it may be a headwind for further earnings and margin improvement. However, should the specter of inflation subside, we would expect investors to have a more favorable outlook for the sector and AIG in particular. Catastrophe losses remain a key factor in earnings volatility and, in a low catastrophe year, could cause the EPS results to exceed our forecasts. Its indirect exposure to Corebridge also means its earnings have material volatility with changing equity markets.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group LTD	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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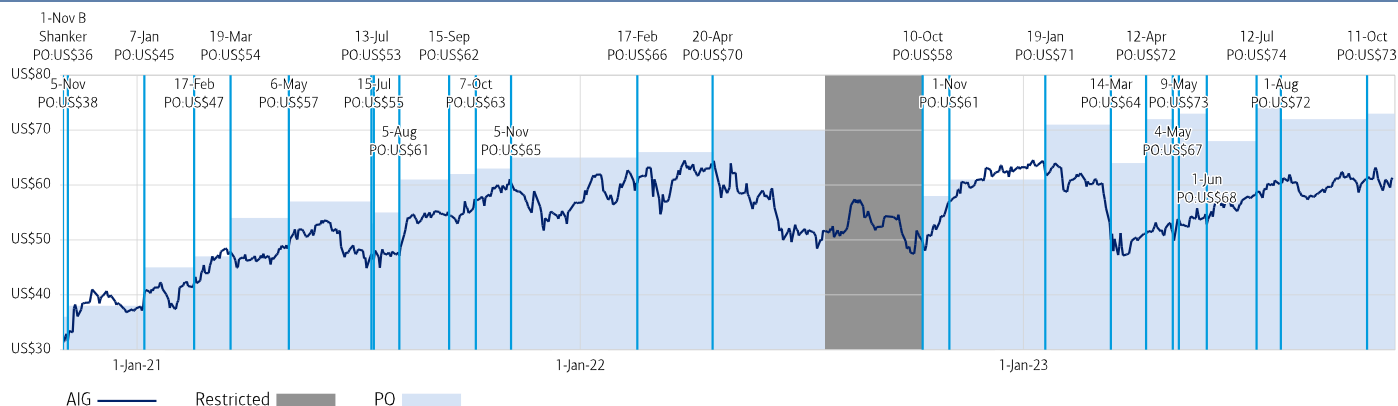
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Amer Intl Group (AIG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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