

American International Group

An all-round EPS/operational beat in 4Q23

Maintain Rating: BUY | PO: 75.00 USD | Price: 70.09 USD

4Q23 adjusted EPS of \$1.79

AI's 4Q23 result came in ahead of our forecast of \$1.55 and consensus of \$1.63. The company's results beat our forecasts across all segments, partly offset by a greater portion of earnings owned by non-controlling interests (principally, Corebridge's non-AIG stake) than we anticipated. The General Insurance (P&C) business had better underlying underwriting margins and fewer catastrophe losses compared with our forecast. Prior-year loss development was immaterial, which we believe will be viewed favorably given other 4Q23 peers' reports. Net written P&C premium growth of 3% to \$5.8bn was essentially in line with our estimate. The light production results were led by notable non-renewals in the Lexington North America Commercial specialty business.

Life/Corebridge results exceed our expectations

\$957mn of adjusted pre-tax income ran ahead of our \$919mn forecast, largely driven by better-than-expected results in Individual Retirement and Life Insurance, while Group Retirement and Institutional Markets were in line with our projection. Premiums/deposits in Individual retirement of \$5.3bn ran well-ahead of our estimate for \$4.0bn, with particular strength in fixed annuity sales. Net flows in Group Retirement (\$2.1bn) and Life (\$1.2bn) also ran ahead of our forecast, while Institutional Markets (\$2.0bn) was in line.

Balance sheet and cash flows ahead of forecasts

Adjusted book value per share dropped to \$76.65 (from \$78.17 in 3Q23), while repurchases drove share count down to 688.8mn (from 704.6mn). Both expected, but hard to pinpoint, the accumulated mark-to-market loss on interest rate-sensitive bonds dropped from \$22.5bn in 3Q23 to \$14.0bn at year-end. While the company's \$1bn in share repurchases fell below our forecast of \$1.5bn, the company also repurchased \$1.6bn in senior unsecured notes beyond our expectation. The Corporate "segment" loss of \$399mn was also better than our \$440mn forecast.

Strong 2023 result pivots to 2024

We expect that the 4Q23 results will be received favorably by investors given a mixed quarter within the insurance peer group. Some remaining factors to be addressed are the absence of Validus revenues/earnings in 2024 results and the expected deconsolidation of Corebridge's result from AI's reported financials and the separation of further proceeds. We maintain our Buy rating on the shares.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.12	4.55	6.55	7.60	8.70
GAAP EPS	10.82	13.01	6.78	7.60	8.70
EPS Change (YoY)	103.2%	-11.1%	44.0%	16.0%	14.5%
Consensus EPS (Bloomberg)			6.65	7.45	8.33
DPS	1.28	1.28	1.40	1.50	1.58
Valuation (Dec)					
P/E	13.7x	15.4x	10.7x	9.2x	8.1x
GAAP P/E	6.5x	5.4x	10.3x	9.2x	8.1x
Dividend Yield	1.8%	1.8%	2.0%	2.1%	2.3%

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Stock Data

Price	70.09 USD
Price Objective	75.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-1-7
52-Week Range	45.66 USD - 71.07 USD
Mrkt Val (mn) / Shares Out (mn)	49,206 USD / 702.0
Free Float	99.7%
Average Daily Value (mn)	241.15 USD
BofA Ticker / Exchange	AIG / NYS
Bloomberg / Reuters	AIG US / AIG.N
ROE (2023E)	14.5%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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iQprofileSM American International Group

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	34,137	33,820	35,579	33,106	32,987
Net Investment Income	12,825	10,729	12,663	14,261	14,789
Total Revenue	50,888	53,110	48,468	48,804	49,237
Total Cost of Benefits and Claims	(28,041)	(26,747)	(28,693)	(27,991)	(27,925)
S,G & A (Including Commissions)	(9,550)	(9,655)	(1,643)	(1,638)	(1,644)
Total Operating Expenses	(40,650)	(39,418)	(33,313)	(32,319)	(31,835)
Pre-Tax Operating Earnings	10,238	13,692	15,155	16,485	17,402
Income Tax Expense	(1,148)	(1,134)	(1,596)	(1,744)	(1,850)
Operating Earnings After Tax	4,430	3,588	4,734	4,925	5,216
Net Income (Reported)	8,777	12,167	12,805	13,441	14,212
Diluted Shares	865	788	723	648	600
Operating Earnings Per Share	5.12	4.55	6.55	7.60	8.70
Net Income (Reported) Per Share	10.82	13.01	6.78	7.60	8.70

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	183,278	181,878	180,478
Total Assets	596,112	526,634	396,760	394,707	397,382
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	354,217	354,217	354,217
Total Equity	68,912	42,235	42,543	40,490	43,165
Total Equity (Ex FAS 115)	68,912	42,235	42,543	40,490	43,165
Book Value per Share (Reported)	79.97	53.83	56.99	61.22	67.56
Book Value per Share (Ex FAS 115)	71.80	83.92	82.73	80.41	77.03

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	38.1%	38.1%	6.5%	6.9%	6.7%
Loss Ratio	64.2%	60.8%	59.8%	61.6%	62.0%
Combined Ratio	102.4%	98.9%	66.3%	68.6%	68.7%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	8.7x	10.1x	10.9x	9.5x	9.5x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	9.6%	-0.9%	5.2%	-6.9%	-0.4%
Net Investment Income	8.6%	-16.3%	18.0%	12.6%	3.7%
Total Revenue	17.1%	4.4%	-8.7%	0.7%	0.9%
Operating Earnings per Share	103.2%	-11.1%	44.0%	16.0%	14.5%
Asset	1.6%	-11.7%	-24.7%	-0.5%	0.7%
Reported Book Value per Share	4.6%	-32.7%	5.9%	7.4%	10.4%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	6.8%	9.2%	14.5%	12.1%	12.2%
Operating ROE (Ex FAS 115)	6.6%	8.6%	14.5%	12.1%	12.2%
Operating Return on Average Assets	0.7%	0.6%	1.0%	1.2%	1.3%
Operating Margin	8.7%	6.8%	9.8%	10.1%	10.6%
Long Term Debt to Cap Ratio (Ex FAS 115)	25.6%	33.5%	36.1%	37.3%	35.8%
Net Income % Operating Income	204.5%	349.2%	285.8%	298.7%	297.6%
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 3,440,604

Quarterly Earnings Estimates

	2022	2023
Q1	1.30A	1.63A
Q2	1.22A	1.75A
Q3	0.66A	1.61A
Q4	1.36A	1.55E

Price objective basis & risk

American International Group (AIG)

We arrive at a price objective of \$75, based on a sum-of-the-parts valuation including 1) our expected value of AIG's 50% stake in Corebridge, 2) an expectation that AIG's P&C businesses now unencumbered would take at a peer P/E multiple (currently 10x 2025E) 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
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA 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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

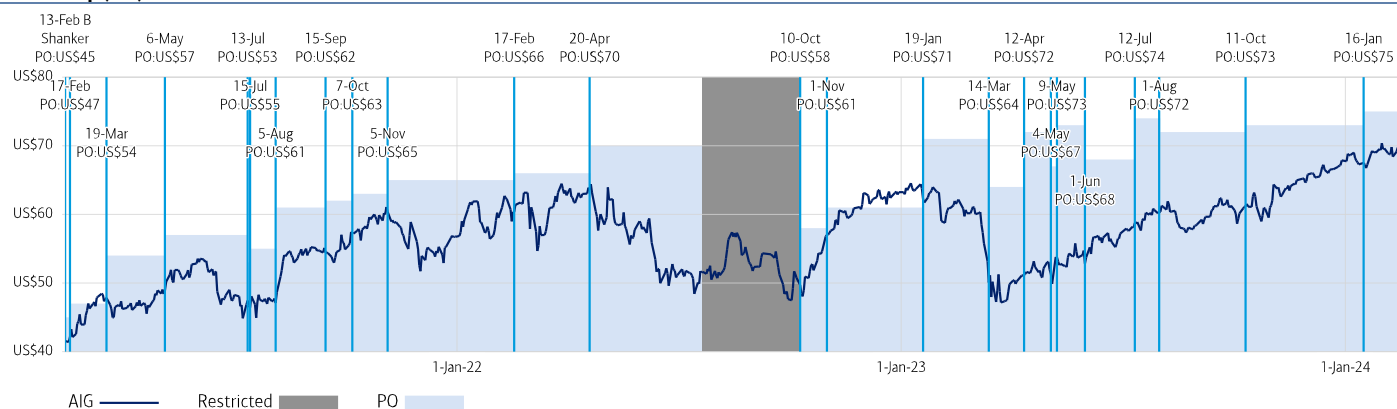
Basic EBIT + Depreciation + Amortization

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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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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