

American International Group

Downgrading shares to Neutral: execution remains good, but headwinds in 2024

Rating Change: NEUTRAL | PO: 77.00 USD | Price: 70.04 USD

Headwinds likely to face stock in 2024

After a strong 4Q23 result in both AIG's General Insurance business and Corebridge, AIG appears to be executing well operationally in nearly all its businesses. However, AIG stock faces a number of difficulties in 2024. First, we expect difficult year-over-year comparables for both top line numbers and margins as 2024 results exclude the Validus reinsurance business recently sold to RenaissanceRe, which had higher underwriting margins than the bulk of AIG's business. While well-publicized, we still think this makes it difficult for the company to signal YoY improvement to investors. Broadly, we believe commercial P&C loss ratios have peaked (noting Underperform ratings on CB, CNA, and TRV) making it difficult for AIG to improve its loss ratio pro forma for the Validus sale.

Corebridge separation to add greater complexity

Our forecast continues to model Corebridge results as consolidated, but AIG has announced intention to reduce exposure to a minority stake (or perhaps sell the entirety of its ownership), upon which, Corebridge results would be deconsolidated. While details are in progress, depending on size of future transactions and AIG/CRBG share prices, upon deconsolidation, we expect stand-alone AIG's EPS to be about 10% lower than our current forecast. The P/E multiple for the stock would see a step-up, and the perceived discount vs. "peers" will likely narrow. On the other hand, significant share repurchase could buttress the stock price and a low price-to-book multiple should provide price support.

EPS estimates fall following decelerating inv. yields

Following 4Q23 results, we expect a slower trend toward higher investment yields for 2024. Investment income will vary depending on the pace of share buybacks. We are slightly dialing back the pace of expense improvement within personal lines, though EPS forecast benefit from lower preferred dividends as pursuant to a late 1Q24 redemption.

Price objective to \$77; downgrading to Neutral

Expansion of the P&C peer group 2025 P/E multiple to 10.6x from 10x previously and an increase in the market value of Corebridge shares (remains Buy), was largely offset by lower forecasted P&C earnings, with the net result of \$2 lift in our price objective from \$75 previously. Our share price is based on the value of the Corebridge stake plus a multiple on its P&C earnings. While expenses can continue to be rationalized, improving underwriting margins, technical headwinds from the impact of the potential separation and lack of material upside lead us to lower our Buy recommendation to Neutral.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.55	6.79	7.30	8.55	9.25
GAAP EPS	13.01	4.98	7.30	8.55	9.25
EPS Change (YoY)	-11.1%	49.2%	7.5%	17.1%	8.2%
Consensus EPS (Bloomberg)			7.46	8.36	9.06
DPS	1.28	1.40	1.50	1.58	1.66
Valuation (Dec)					
P/E	15.4x	10.3x	9.6x	8.2x	7.6x
GAAP P/E	5.4x	14.1x	9.6x	8.2x	7.6x
Dividend Yield	1.8%	2.0%	2.1%	2.3%	2.4%

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Timestamp: 20 February 2024 06:00AM EST

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	75.00	77.00
2024E EPS	7.60	7.30
2025E EPS	8.70	8.55
2026E EPS	9.35	9.25

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Stock Data

Price	70.04 USD
Price Objective	77.00 USD
Date Established	20-Feb-2024
Investment Opinion	B-2-7
52-Week Range	45.66 USD - 73.28 USD
Mkt Val (mn) / Shares Out (mn)	47,694 USD / 681.0
Free Float	99.7%
Average Daily Value (mn)	259.95 USD
BoFA Ticker / Exchange	AIG / NYS
Bloomberg / Reuters	AIG US / AIG.N
ROE (2024E)	9.7%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

iQprofileSM American International Group

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	33,820	35,989	33,037	32,922	33,799
Net Investment Income	10,729	12,808	14,889	15,460	15,983
Total Revenue	53,110	46,193	49,263	49,873	51,300
Total Cost of Benefits and Claims	(26,747)	(28,977)	(28,266)	(28,210)	(29,024)
S,G & A (Including Commissions)	(9,655)	(9,617)	(1,656)	(1,663)	(1,694)
Total Operating Expenses	(39,418)	(41,525)	(32,642)	(32,169)	(32,992)
Pre-Tax Operating Earnings	13,692	4,668	16,621	17,705	18,309
Income Tax Expense	(1,134)	(1,702)	(1,825)	(1,964)	(2,053)
Operating Earnings After Tax	3,588	4,921	4,802	5,234	5,521
Net Income (Reported)	12,167	2,217	13,496	14,401	14,856
Diluted Shares	788	725	658	612	597
Operating Earnings Per Share	4.55	6.79	7.30	8.55	9.25
Net Income (Reported) Per Share	13.01	4.98	7.30	8.55	9.25

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	230,641	236,974	0	0	0
Total Cash and Investments	311,193	324,827	195,643	194,243	192,843
Total Assets	526,634	539,306	412,304	414,978	417,916
Reserves	59,223	58,576	60,576	62,576	64,576
LT Debt	21,299	19,796	22,387	22,387	22,387
Total Liabilities	484,399	488,005	363,192	363,192	363,192
Total Equity	42,235	51,301	49,112	51,786	54,724
Total Equity (Ex FAS 115)	42,235	51,301	49,112	51,786	54,724
Book Value per Share (Reported)	53.83	65.14	70.51	76.88	83.85
Book Value per Share (Ex FAS 115)	83.92	85.52	83.64	80.29	83.85

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	38.1%	38.3%	7.0%	6.8%	6.7%
Loss Ratio	60.8%	58.9%	61.6%	62.0%	62.0%
Combined Ratio	98.9%	97.2%	68.6%	68.7%	68.7%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	10.1x	11.4x	9.5x	8.2x	7.8x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	-0.9%	6.4%	-8.2%	-0.3%	2.7%
Net Investment Income	-16.3%	19.4%	16.2%	3.8%	3.4%
Total Revenue	4.4%	-13.0%	6.6%	1.2%	2.9%
Operating Earnings per Share	-11.1%	49.2%	7.5%	17.1%	8.2%
Asset	-11.7%	2.4%	-23.5%	0.6%	0.7%
Reported Book Value per Share	-32.7%	21.0%	8.3%	9.0%	9.1%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	9.2%	11.7%	9.7%	10.2%	10.2%
Operating ROE (Ex FAS 115)	8.6%	10.4%	9.7%	10.2%	10.2%
Operating Return on Average Assets	0.6%	0.9%	1.0%	1.3%	1.3%
Operating Margin	6.8%	10.7%	9.7%	10.5%	10.8%
Long Term Debt to Cap Ratio (Ex FAS 115)	33.5%	27.8%	31.3%	30.2%	29.0%
Net Income % Operating Income	349.2%	59.7%	308.0%	300.7%	294.4%
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. The company has material opportunities for cost rationalization as it executes on its post-life separation restructuring plan. However, following its separation from Corebridge, we believe its valuation will be more closely aligned with peer P/E multiples and much of the upside has already been realized. A limited amount of further upside forms our Neutral rating.

Stock Data

Average Daily Volume

3,711,457

Quarterly Earnings Estimates

	2023	2024
Q1	1.63A	1.73E
Q2	1.75A	1.78E
Q3	1.61A	1.76E
Q4	1.79A	2.04E

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AIG	AIG US	Amer Intl Group	US\$ 70.04	B-2-7
CB	CB US	Chubb Ltd	US\$ 250.9	B-3-7
CNA	CNA US	CNA Financial	US\$ 44.45	B-3-8
CRBG	CRBG US	Corebridge	US\$ 25.35	B-1-7
TRV	TRV US	Travelers Cos	US\$ 217.53	B-3-7

Source: BofA Global Research

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Price objective basis & risk

American International Group (AIG)

We arrive at a price objective of \$77, based on a sum-of-the-parts valuation including our expected value of AIG's 50% stake in Corebridge and an expectation that AIG's P&C businesses now unencumbered would take at a peer P/E multiple (currently 10.6x 2025E). We also note that, while the stock currently trades around 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.

Chubb Ltd (CB)

We arrive at a price objective of \$236 based on a 10.7x 2025E P/E on our corresponding EPS forecast, which is in line with large-cap commercial lines peers, reflecting the historical trading range.

Upside risk is posed by a material improvement in underwriting margins. The company has been experiencing meaningful price increases in 2020, but these have not translated into meaningfully improving margins so far. Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also creates risk of missing or exceeding our EPS outlook. Likewise, reserve adequacy is a bi-directional risk to our price objective.

CNA Financial (CNA)

Our price objective of \$43 is based on 80% of the average consensus large-cap P&C peer P/E multiple (10.7x), compared with a 75-100% range where it has traded in the past. We think the discount is appropriate given the overhang associated with its closed-block long-term care book and its general inability/aversion to repurchasing its own shares, even when trading at a discount to perceived fair value. Trading history around a range validates this relative multiple.

Upside risks include sustained higher interest rates which ameliorate the reserve pressures on the LTCi book and allow the company to earn more income on its investment float. Additional upside risk could come from majority owner Loews buying the remaining limited float trading today. Downside risk is presented by a return to the low interest rate environment, causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also created the risk of missing and exceeding our EPS outlook. The company's recent premium growth could be indicative of adding less/unprofitable clients to its book of business, thus adversely impacting future earnings and increasing the probability of a future reserve charge serves as an additional downside risk. We believe underwriting margins for CNA and the commercial P&C group more broadly have peaked, which has the potential for downside versus our forecasts.

Corebridge Financial (CRBG)

Our price objective of \$34 is based on 70% of the 2025E peer group P/E multiple (7.9x). We use a discount to the peer group to reflect a) the overhang of limited float and b) below-average valuations for competitors in the VA market.

Upside risks are accelerated market recovery, higher interest rates, accelerated capital returns to shareholders, an increased savings target, and higher operational synergies from the Blackstone partnership.

Downside risks are a continuation of equity market pressure, lower interest rates, pressures on sales and flows, and challenges executing the savings program.

Travelers Cos (TRV)

Our \$207 price objective is based on the large-cap P&C peer group's next-year P/E multiple (currently 2025E), which currently stands at 10.2x. The company's transparency aids in establishing investor confidence in its reserving methodology and underwriting discipline.

Upside risks to our price objective are the potential that commercial loss reserves established during the COVID19 period do not evolve into paid claims and instead create earnings in the form of net prior-year favorable reserve development. Additionally, high loss cost trend has muted the impact of rate improvements. Should loss costs decelerate, the company's underlying margins would expand more quickly. Downside risks are workers' comp claims could accelerate as back-to-work trends post-pandemic trend toward full employment. Catastrophe losses remain a key factor in earnings volatility and could prevent the company from achieving our price objective. The risk of inflation remains a longer-term concern that would likely weigh materially on results or improve results in an extended disinflationary period.

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
	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				
	American International Group	AIG	AIG US	Joshua Shanker
	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
	Prudential Financial	PRU	PRU US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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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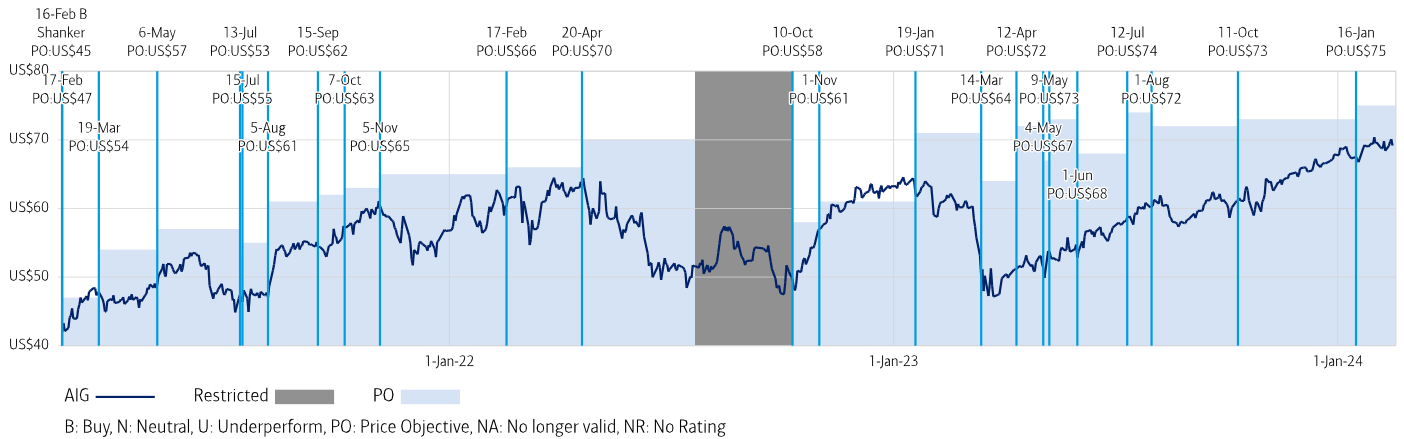
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

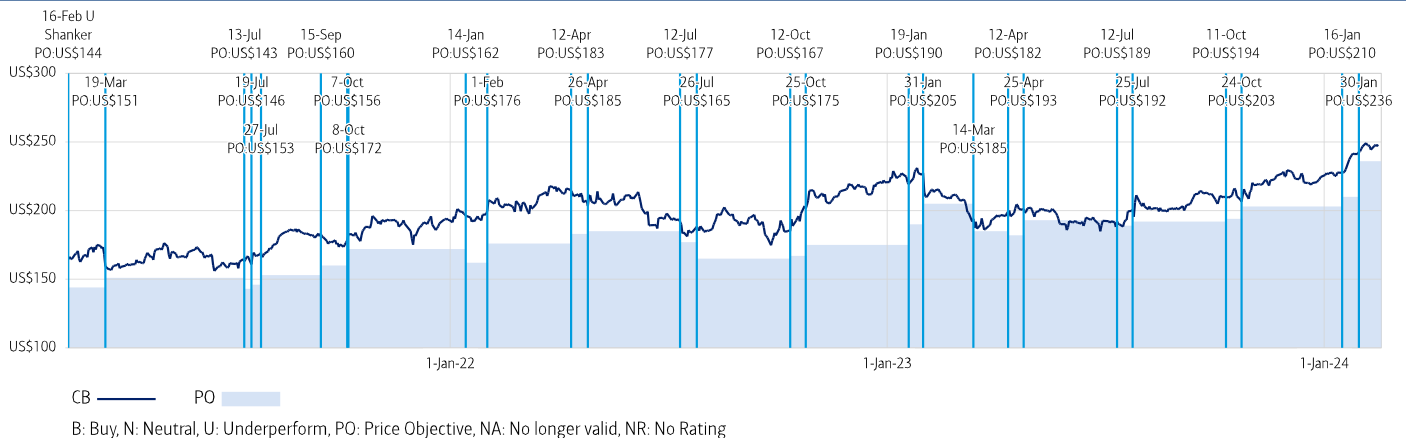
Important Disclosures

Amer Intl Group (AIG) Price Chart



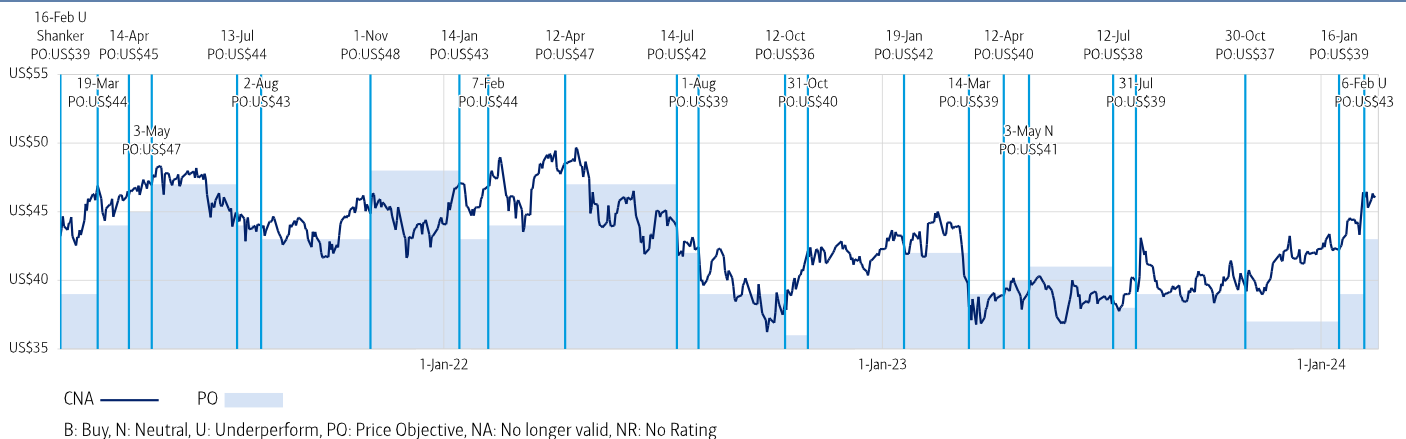
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Chubb Ltd (CB) Price Chart



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CNA Financial (CNA) Price Chart



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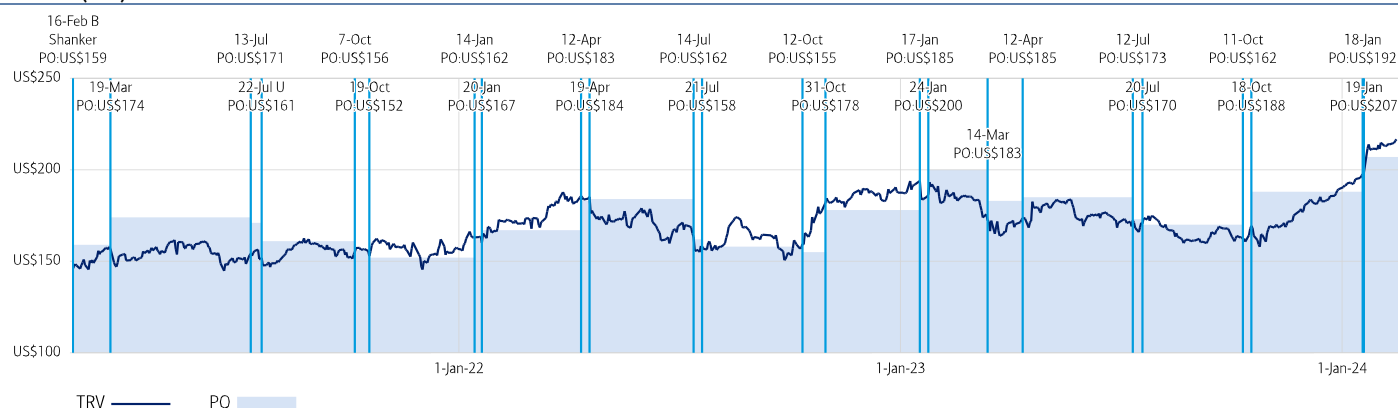
Corebridge (CRBG) Price Chart



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.

Travelers Cos (TRV) 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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