

## Corebridge Financial

# Lower PRT activity and elevated fixed annuity lapse rates in 3Q23 earnings miss

Reiterate Rating: BUY | PO: 29.00 USD | Price: 21.71 USD

## 3Q23 operating earnings of \$1.05

This result compares with our forecast of \$1.07 and Street consensus of \$1.04. Lower spread income in Individual Retirement, weaker flows due to lower pension risk transfer activity in Institutional Markets resulted in lower adjusted operating income in contrast to our forecast. Share repurchase were lighter than expected. Partially offsetting were better-than-expected variable investment income and favorable Life Insurance results. Corebridge announced a special dividend of \$1.16 in addition to their regular dividend in 4Q23, using the proceeds from disposition of Laya Healthcare to AXA. We are modestly increasing our expectations for share repurchase in 4Q23 as the company has already repurchased \$102mn shares through October 31.

## Fixed annuity lapse rates accelerate

Individual Retirement experienced net outflows of \$743mn, comparing unfavorable with our forecast of flat net flows. The continued move higher in interest rates and increasing macroeconomic volatility led to outflows in variable annuities while the company reported growth in both fixed and fixed index annuities. Lapse rates in fixed annuities of 17.7% accelerated QoQ, presumably due to investors seeking more attractively priced products following the increase in rates during the quarter. This is in contrast to management's comments of moderation of lapse increases on the 2Q23 earnings call. Variable and fixed annuity surrender rates seem largely stable with recent quarters.

## Management is addressing office exposure in portfolio

Corebridge has meaningful exposure to commercial real estate including office. Management has proactively resolved \$900mn of maturities in the traditional office space through loan extensions and repayments and are working through 2024 office maturities of roughly \$350mn. We expect this to continue to be a topic of interest.

## Multiple expansion offsets forward EPS declines

Our forward EPS FY24E-25E fall decline due to lower asset levels as well moderation in base spreads as we expect increased competition to pressure spread income and increased deferred acquisition costs following the company's annual assumption review of reserves. Our PO remains \$29, which is predicated on 70% of the peer group multiple (8.3x from 8x prior) on 2024E earnings. With healthy upside potential to our price objective and a strong focus on capital return, we rate Corebridge Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.54	3.66	4.10	4.95	5.80
GAAP EPS	11.40	12.60	4.64	4.74	5.80
EPS Change (YoY)	NA	-19.4%	12.0%	20.7%	17.2%
Consensus EPS (Bloomberg)			4.14	5.03	6.05
DPS	0	0.46	2.70	0.96	1.00
Valuation (Dec)					
P/E	4.8x	5.9x	5.3x	4.4x	3.7x
GAAP P/E	1.9x	1.7x	4.7x	4.6x	3.7x
Dividend Yield	0%	2.1%	12.4%	4.4%	4.6%

03 November 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
2023E EPS	4.20	4.10
2024E EPS	5.20	4.95
2025E EPS	6.30	5.80
2023E DPS	2.54	2.70

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### Stock Data

Price	21.71 USD
Price Objective	29.00 USD
Date Established	11-Oct-2023
Investment Opinion	C-1-7
52-Week Range	13.50 USD - 22.65 USD
Mkt Val (mn) / Shares Out (mn)	13,807 USD / 636.0
Average Daily Value (mn)	47.61 USD
BofA Ticker / Exchange	CRBG / NYS
Bloomberg / Reuters	CRBG US / CRBG.N
ROE (2023E)	0%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	NLA

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Timestamp: 03 November 2023 11:00AM EDT

# iQprofile<sup>SM</sup> Corebridge Financial

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	5,646	5,113	7,297	6,931	5,858
Net Investment Income	9,917	8,758	9,832	10,876	11,354
<b>Total Revenue</b>	<b>20,490</b>	<b>17,955</b>	<b>20,808</b>	<b>21,264</b>	<b>20,641</b>
Total Cost of Benefits and Claims	(8,028)	(6,734)	(8,868)	(8,308)	(7,296)
S,G & A (Including Commissions)	(680)	(568)	(581)	(592)	(604)
<b>Total Operating Expenses</b>	<b>(15,944)</b>	<b>(14,781)</b>	<b>(17,588)</b>	<b>(17,263)</b>	<b>(16,435)</b>
<b>Pre-Tax Operating Earnings</b>	<b>4,546</b>	<b>3,174</b>	<b>3,219</b>	<b>4,001</b>	<b>4,206</b>
Income Tax Expense	(756)	(483)	(558)	(738)	(780)
<b>Operating Earnings After Tax</b>	<b>2,928</b>	<b>2,369</b>	<b>2,643</b>	<b>2,964</b>	<b>3,108</b>
<b>Net Income (Reported)</b>	<b>2,929</b>	<b>2,371</b>	<b>2,640</b>	<b>2,963</b>	<b>3,110</b>
Diluted Shares	645	647	645	599	536
Operating Earnings Per Share	4.54	3.66	4.10	4.95	5.80
Net Income (Reported) Per Share	11.40	12.60	4.64	4.74	5.80

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	256,855	220,668	NA	NA	NA
<b>Total Assets</b>	<b>416,212</b>	<b>360,322</b>	<b>355,112</b>	<b>355,932</b>	<b>357,040</b>
Reserves	214,597	206,576	0	0	0
LT Debt	427	7,868	8,371	8,371	8,371
<b>Total Liabilities</b>	<b>387,284</b>	<b>350,003</b>	<b>346,336</b>	<b>346,336</b>	<b>346,336</b>
<b>Total Equity</b>	<b>28,928</b>	<b>10,319</b>	<b>9,025</b>	<b>9,845</b>	<b>10,953</b>
<b>Total Equity (Ex FAS 115)</b>	<b>28,928</b>	<b>10,319</b>	<b>9,025</b>	<b>9,845</b>	<b>10,953</b>
Book Value per Share (Reported)	41.99	14.54	12.61	15.48	19.50
Book Value per Share (Ex FAS 115)	26.23	40.69	43.47	49.79	57.84

## Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
<b>Combined Ratio</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	14.4x	19.8x	37.0x	37.7x	34.3x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	NM	-9.4%	42.7%	-5.0%	-15.5%
Net Investment Income	NM	-11.7%	12.3%	10.6%	4.4%
Total Revenue	NM	-12.4%	15.9%	2.2%	-2.9%
Operating Earnings per Share	NA	-19.4%	12.0%	20.7%	17.2%
Asset	NM	-13.4%	-1.4%	0.2%	0.3%
Reported Book Value per Share	NM	-65.4%	-13.3%	22.8%	26.0%

## Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NM	0.6%	0.7%	0.8%	0.9%
Operating Margin	14.3%	13.2%	12.7%	13.9%	15.1%
Long Term Debt to Cap Ratio (Ex FAS 115)	1.5%	43.3%	48.1%	46.0%	43.3%
Net Income % Operating Income	100.0%	100.1%	99.9%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	17.7%	24.3%	24.5%	20.2%	19.3%

## Company Sector

Insurance - Life

## Company Description

Corebridge is one of the largest life insurance companies in the United States. Historically, it comprised the life insurance operations of AIG. Corebridge offers various life & retirement protection products across four segments: Individual Retirement, Group Retirement, Life Insurance, and Institutional Markets. Its diversification across market segments, earnings sources, and distribution channels distinguishes it from peers.

## Investment Rationale

We have a Buy rating on CRBG as we believe that the current steep discount to the peer group is unmerited. A strong capital management outlook and above-average dividend yield should provide support to the stock, offsetting the overhangs of limited float and market volatility.

## Stock Data

Average Daily Volume 2,193,211

## Quarterly Earnings Estimates

	2022	2023
Q1	1.15A	0.97A
Q2	0.76A	1.04A
Q3	0.82A	1.05A
Q4	0.94A	1.03E



## Price objective basis & risk

### Corebridge Financial (CRBG)

Our price objective of \$29 is based on 70% of the 2024E peer group P/E multiple (8.3x). 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.

## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	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

## **iQmethod<sup>SM</sup> 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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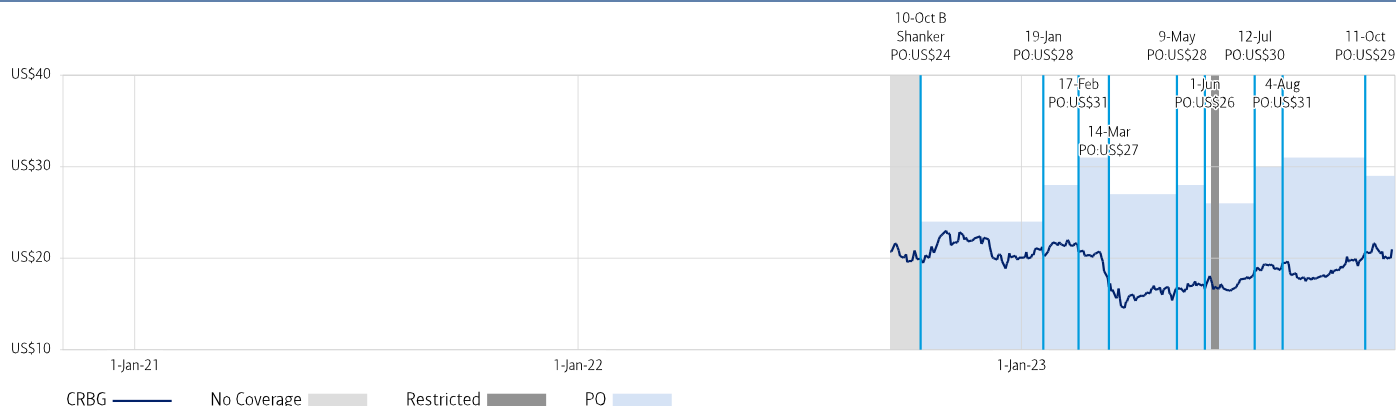
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### Corebridge (CRBG) Price Chart



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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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