

Aegon

# In-line underlying; back-book actions supportive over time

Reiterate Rating: NEUTRAL | PO: 5.80 EUR | Price: 5.55 EUR

## In-line underlying; back-book actions supportive over time

Aegon's results were supported by favourable markets, regulatory changes, and positive variances in 4Q excluding which numbers were roughly in-line with expectations we think (on earnings, cash, and capital). The final dividend is as expected at €0.16 per share and there is no update on special returns given the ongoing buyback (part of the €1.5bn program) runs for a little while longer. New actions are taken on the US back-books helping reduce market volatility further, benefiting the cost of equity over time. We reiterate our Neutral rating, preferring other Dutch insurers.

## No surprise on capital generation

Aegon reported €1.28bn of Operating Capital Generation (OCG) for the year, surpassing its €1.2bn guidance. 4Q specifically is a 13% headline beat to consensus but in-line when excluding positive one-offs in the International and the US segments. Holding costs were somewhat higher in the quarter meaning net OCG came in behind expectations. We note that US mortality was higher than expected in 4Q. Aegon reiterated its €1.1bn guidance for 2024 (consensus nearly at €1.2bn).

## Markets and solvency review support capital in 4Q

At 432%, the US capital position surpassed expectations but that is fully attributable to more supportive markets (especially interest rates and credit spreads). Similarly, the UK solvency of 187% is better on a headline basis but probably weaker underlying given that the Risk Margin reform had a 28%ppts positive impact compared to the 18%ppts one we modelled. This also explains the 4%ppts beat at group level (193% reported). Aegon's holding company cash was €2.4bn at year-end, slightly ahead of expectations due to some excess capital repatriation in the Chinese asset management unit.

## Market exposure reduces further with new mgmt actions

New actions have been taken in the quarter to further reduce market volatility stemming from the US life back-books. On the fixed annuity front, a new Bermuda unit has been set up to reinsure part of the reserves. On the variable annuity side, fees earned on product riders are now hedged too leading to a reduced sensitivity to equity markets (reduced from -34%ppts of RBC in 3Q to -24%ppts at year-end).

## Flows still pressured but encouraging signs in mid-market

On the new business front, we note that the US sales were roughly stable but flows continued to be pressured with \$-4.3bn of outflows in 4Q (\$-13bn for the year). If we focus on the mid-market workplace however, sales were up 30% y/y and assets under management are 20% higher (\$48bn). In the UK, retail continuities to suffer with £1bn outflows in 4Q (£-3bn over the year). We note asset management posted the first positive flow quarter in many with €1.2bn inflows (€-0.6bn for the year).

01 March 2024

### Equity

**David Barma** >>  
Research Analyst  
MLI (UK)  
[david.barma@bofa.com](mailto:david.barma@bofa.com)

**Andrew Sinclair** >>  
Research Analyst  
MLI (UK)  
[andrew.sinclair@bofa.com](mailto:andrew.sinclair@bofa.com)

**Freya Kong** >>  
Research Analyst  
MLI (UK)  
[freya.kong@bofa.com](mailto:freya.kong@bofa.com)

### Stock Data

Price (Common / ADR)	5.55 EUR / 5.92 USD
Price Objective	5.80 EUR / 6.31 USD
Date Established	23-Jan-2024 / 23-Jan-2024
Investment Opinion	C-2-7 / C-2-7
52-Week Range	3.71 EUR-5.64 EUR
Market Value (mn)	10,064 EUR
Shares Outstanding (mn)	1,814.7 / 1,814.7
Average Daily Value (mn)	36.59 USD
Free Float	69.0%
BofA Ticker / Exchange	AEGOF / ENA
BofA Ticker / Exchange	AEG / NYS
Bloomberg / Reuters	AGN NA / AEGN.AS
ROE (2023E)	5.8%
Net Dbt to Eqty (Dec-2022A)	25.3%
ESGMeter™	High

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 01 March 2024 02:31AM EST

# Q4 2023 in numbers

## Exhibit 1: Aegon 4Q23 results initial view

Headline beat on most metrics but in-line underlying

	4Q 2023					
	Actual	BofA	A vs. BofA	Consensus	A vs. C	BofA vs. C
<b>Earnings</b>						
OCG (pre. Holding)	306	272	12%	271	13%	0%
OCG	230	217	6%	215	7%	1%
<b>Other</b>						
FCF	349	315	11%	271	29%	16%
Holding cash	2,387	2,340	2%	2,305	4%	2%
DPS (final)	0.16	0.16	-	0.16	(2%)	(2%)
S2 ratio	193%	190%	3%	189%	4%	1%
US RBC ratio	432%	422%	10%	424%	8%	(2%)
UK S2 ratio	187%	181%	6%	182%	5%	(1%)

Source: Company data, BofA Global Research estimates

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## Price objective basis & risk

### Aegon (AEGOF / AEG)

Our €5.8 price objective (\$6.31 ADR) is based on a sum-of-the-parts by key business line on a 12-month forward basis. To allocate capital, we use an estimate of capital requirements (at a target S2 / Risk Based Capital ratio) and use Operating Capital Generation (OCG) for earnings. Our SOTP is based on discounted 2025 levels. We value cash returns in the meantime. We also separately value excess capital (on a cash basis) at 60% of face value. We value Aegon's stake in ASR using the average of ASR's spot share price and our price objective.

Upside risks to our PO are 1) an economic improvement, 2) higher US interest rates, 3) surprise asset disposals, 4) management actions, 5) lower-than-expected credit defaults.

Downside risks to our PO are 1) a worsening of the economic outlook, 2) weak capital markets, 3) higher credit defaults than expected. 4) fund outflows in the US, 5) hedging deficiencies.

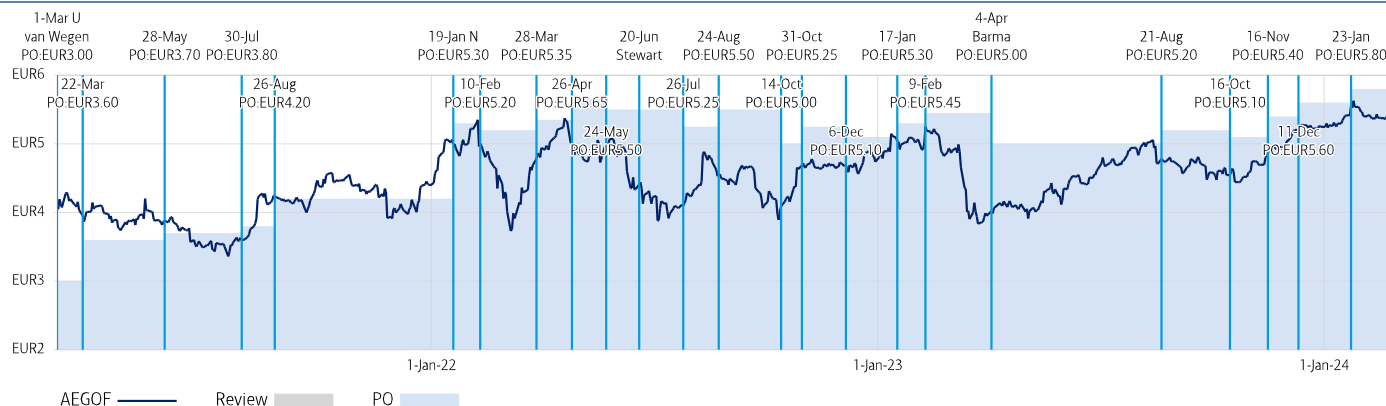
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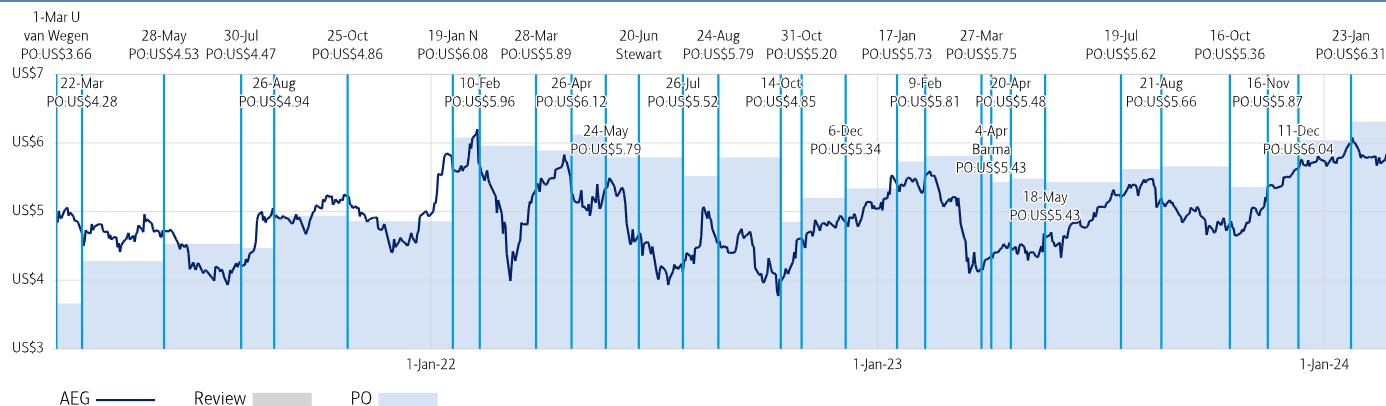
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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