

## U.S. Insurance

# Corebridge reports 1Q23 EPS beat, Flows remain solid while lapse rates rise

Price Objective Change

## 1Q23 Operating earnings of \$0.97

Corebridge's 1Q23 result exceeded our forecast of \$0.87 and Street consensus of \$0.82. AIG announce their earnings results last week, providing a preview into the company's earnings this morning. Most of the lines of businesses were in-line with our forecast while a lower tax rate and a modestly smaller-than-expected operating loss within Corporate resulted in the earnings beat. Parent company liquidity improved \$300mn QoQ to \$1.8bn. Following the company's board of directors announcing a \$1bn share repurchase authorization last week, we continue to expect share repurchase to commence in the second quarter, pending market conditions.

## Flows remains solid while annuity lapse rates move higher

Individual annuities delivered another quarter of positive flows, with \$662mn in 1Q23 driven by stronger fixed and fixed-index annuities deposits. Lapse rates for fixed annuities increased 250bps sequentially to 15.1% as customers seek to take advantage of higher interest rates while fixed index annuities experienced higher lapse rates to a much more modest degree (40bp increase QoQ). Variable annuity lapse rates were largely flat at 7.1%. With that being said, management has clarified that current lapse rates are within their current expectations given market dynamics.

## AIG EPS forecasts increase

We update our AIG out-year EPS forecasts to capture our updated Corebridge outlook into AIG's Life and Retirement segment. Following AIG's solid 1Q23 result, we are increasing share repurchases and refreshing our margin outlook for North America Personal segment. Collective of these changes, our FY23E-25E EPS forecast increase 2.2%, 6.8%, and 6.7%, respectively. Reiterate Buy on AIG and our PO increases to \$73, reflecting a sum-of-the-parts of the P&C business, 76% Corebridge stake, and discounted value of the deferred tax asset. Peer group multiple expansion on the P&C side to 10.6x vs prior 10.3x drives the PO change.

## Corebridge price objective modestly rises to \$28

Upon interpolating the company's 1Q23's earnings results, our forward EPS estimates modestly rise largely due to higher base rates and higher AUMA in annuities. Our PO increase to \$28 from \$27. We value Corebridge shares using 70% of the peer group multiple (7.5x) on 2024E earnings. With healthy upside potential to out price objective and the potential commencement of share repurchases in the next few quarters, we rate Corebridge Buy.

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Equity  
United States  
Insurance

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 09 May 2023 12:27PM EDT

**Stocks mentioned**

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
<b>AIG</b>	AIG US	Amer Intl Group	US\$ 53.29	B-1-7
<b>CRBG</b>	CRBG US	Corebridge	US\$ 16.55	C-1-7

Source: BofA Global Research

**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 76% stake in Corebridge, 2) an expectation that AIG's P&C businesses now unencumbered will take at a peer P/E multiple (currently 10.6x 2024) 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.

**Corebridge Financial (CRBG)**

Our price objective of \$28 is based on 70% of the 2024E peer group P/E multiple (7.5x). 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**

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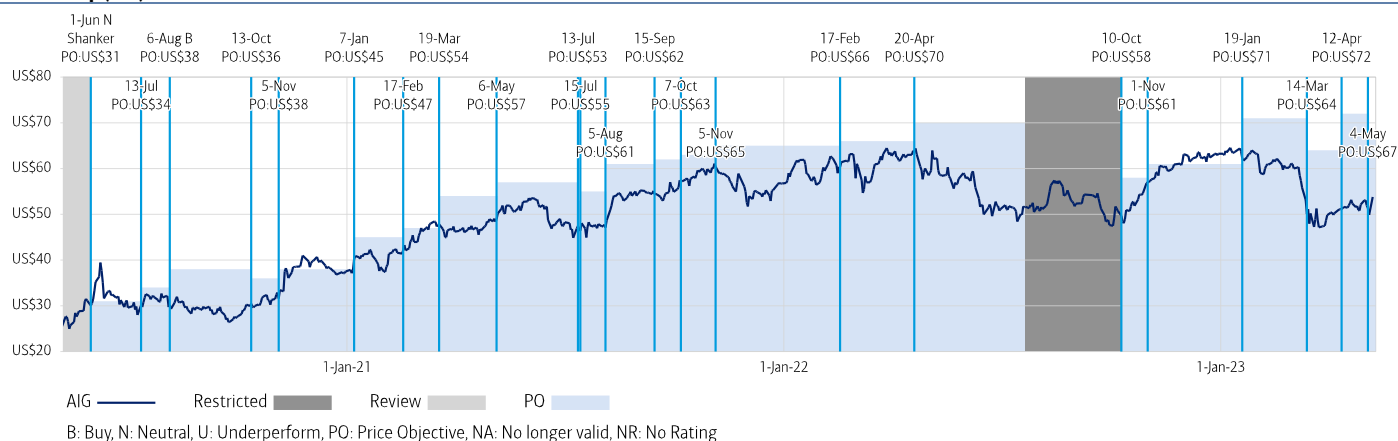
## US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Re	RE	RE US	Joshua Shanker
	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 Hanover	THG	THG US	Grace Carter, CFA
	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
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	Selective	SIGI	SIGI 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
	Axis Capital	AXS	AXS US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Lemonade, Inc.	LMND	LMND US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

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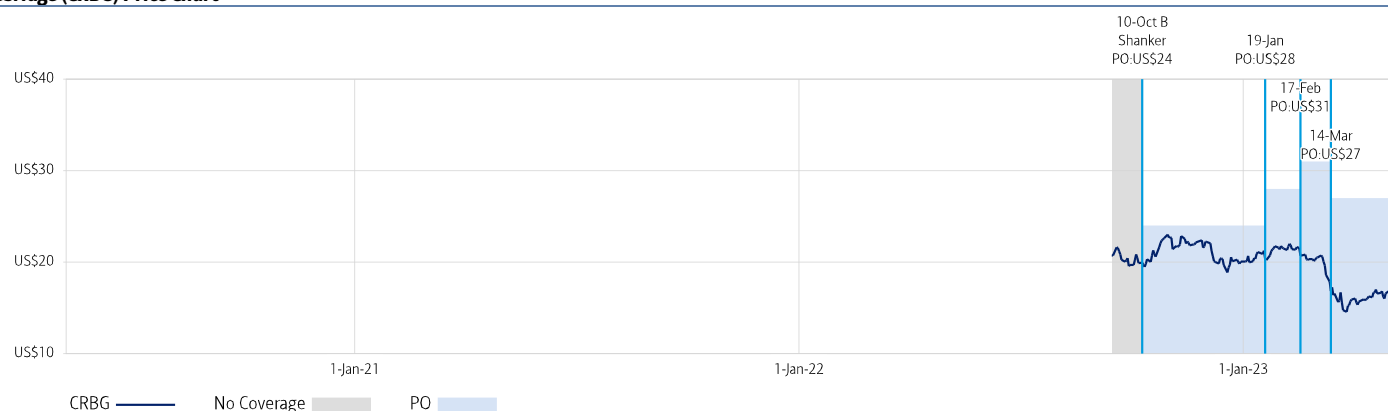
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## Amer Intl Group (AIG) Price Chart



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## Corebridge (CRBG) Price Chart



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 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	152	52.41%	Buy	92	60.53%
Hold	73	25.17%	Hold	44	60.27%
Sell	65	22.41%	Sell	41	63.08%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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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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