

## Assurant

## 4Q23 beat on ex-catastrophe loss ratio and lower tax rate

Reiterate Rating: BUY | PO: 215.00 USD | Price: 168.89 USD

## Assurant reports op. EPS of \$4.58

This is a beat vs our forecast of \$3.61 and Consensus of \$3.68. The beat was primarily concentrated in the Global Housing segment (+\$0.76/sh) and a lower tax rate (+\$0.19/sh). Higher-than-expected “other” investment income contributed +\$0.28/sh, spread across segment results. Global Lifestyle results were close to our forecast (+\$0.03/sh), although they modestly missed on expenses excluding the boost from investment income. The company guides to mid-single-digit adj. EBITDA growth for 2024E. We forecast +5%, in line with the guide; although we already modeled +5% growth, our forecasts net rise upon applying this rate to a higher base.

## Ex-cat claims drive Global Housing beat

The ex-catastrophe loss ratio drove the better-than-expected results in Global Housing (+\$0.98/sh), partly offset by higher catastrophe losses (-\$0.13/sh) and expenses (-\$0.12/sh). The ex-cat loss ratio of 30.2% included a \$40mn benefit from favorable reserve development not contemplated in our estimate; however, the current accident year ratio of 38% still materially beat our 42.5% forecast. We anticipate +3% adj. EBITDA growth (ex-cat) in 2024E, with top line growth from lower expected cessions offsetting margin erosion from lower reserve releases and normalized expense levels.

## Expenses offset top line and claims strength in Lifestyle

Premium and fee growth of +13% (+9% excl. a one-time item) exceeded our forecast of +4% as new partnerships contributed to results. Likewise, claims experience beat our estimate following recent elevation from inflation. However, higher expenses offset the favorability elsewhere. We expect a continuation of these trends in 2024E as onboarding new partners continues to pressure spend; we project +5% adj. EBITDA growth with a higher expense ratio partly offsetting top line growth and a lower benefit ratio.

## Price objective to \$215

Our forward EPS forecasts rise upon integrating 4Q23 results into our model, with 1) higher earnings growth in Housing and 2) lower tax rate guidance offsetting modestly lower expectations for Lifestyle. We update our price objective to \$215, reflecting 75% the year-ahead S&P 500 P/E multiple (18x) on our higher 2025E EPS forecast (incl. amortization). We modestly reduce our relative valuation to 75% vs prior 80% to reflect the greater contribution to earnings mix from the more capital-intensive Housing book. Material upside vs our PO underlies our Buy recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.13	15.49	15.30	17.10	18.00
GAAP EPS	5.05	11.95	14.02	15.91	16.73
EPS Change (YoY)	8.7%	39.2%	-1.2%	11.8%	5.3%
Consensus EPS (Bloomberg)			15.09	16.39	17.09
DPS	2.74	2.82	2.90	2.98	3.06
Valuation (Dec)					
P/E	15.2x	10.9x	11.0x	9.9x	9.4x
GAAP P/E	33.4x	14.1x	12.0x	10.6x	10.1x
Dividend Yield	1.6%	1.7%	1.7%	1.8%	1.8%

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Timestamp: 06 February 2024 07:36PM EST

06 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	205.00	215.00
2024E EPS	14.30	15.30
2025E EPS	15.90	17.10
2026E EPS	17.30	18.00

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## Stock Data

Price	168.89 USD
Price Objective	215.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	104.49 USD - 173.61 USD
Mkt Val (mn) / Shares Out (mn)	8,882 USD / 52.6
Free Float	99.3%
Average Daily Value (mn)	59.38 USD
BofA Ticker / Exchange	AIZ / NYS
Bloomberg / Reuters	AIZ US / AIZ.N
ROE (2024E)	16.1%
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".

# iQprofile<sup>SM</sup> Assurant

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	8,704	9,377	9,969	10,430	10,913
Net Investment Income	356	479	494	493	510
<b>Total Revenue</b>	<b>10,124</b>	<b>11,114</b>	<b>12,030</b>	<b>12,566</b>	<b>13,145</b>
Total Cost of Benefits and Claims	(2,241)	(2,470)	(2,768)	(2,886)	(3,025)
S,G & A (Including Commissions)	(7,262)	(7,643)	(8,210)	(8,530)	(8,937)
<b>Total Operating Expenses</b>	<b>(9,612)</b>	<b>(10,221)</b>	<b>(11,087)</b>	<b>(11,525)</b>	<b>(12,070)</b>
<b>Pre-Tax Operating Earnings</b>	<b>511</b>	<b>894</b>	<b>943</b>	<b>1,042</b>	<b>1,075</b>
Income Tax Expense	(73)	(164)	(200)	(225)	(230)
<b>Operating Earnings After Tax</b>	<b>609</b>	<b>833</b>	<b>800</b>	<b>878</b>	<b>909</b>
<b>Net Income (Reported)</b>	<b>276</b>	<b>642</b>	<b>733</b>	<b>817</b>	<b>845</b>
Diluted Shares	55	54	52	51	51
Operating Earnings Per Share	10.12	14.34	14.17	15.91	16.73
Net Income (Reported) Per Share	5.05	11.95	14.02	15.91	16.73

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	6,284	6,912	7,158	7,399	7,616
Total Cash and Investments	9,061	9,848	10,199	10,541	10,852
<b>Total Assets</b>	<b>33,124</b>	<b>33,635</b>	<b>33,986</b>	<b>34,328</b>	<b>34,639</b>
Reserves	2,724	2,476	2,476	2,476	2,476
LT Debt	2,130	2,081	2,080	2,080	2,082
<b>Total Liabilities</b>	<b>28,895</b>	<b>28,826</b>	<b>28,834</b>	<b>28,752</b>	<b>28,611</b>
<b>Total Equity</b>	<b>4,229</b>	<b>4,810</b>	<b>5,152</b>	<b>5,577</b>	<b>6,028</b>
<b>Total Equity (Ex FAS 115)</b>	<b>4,229</b>	<b>4,810</b>	<b>5,152</b>	<b>5,577</b>	<b>6,028</b>
Book Value per Share (Reported)	78.37	90.60	98.90	108.90	119.56
Book Value per Share (Ex FAS 115)	96.64	105.01	113.58	123.84	134.73

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	83.4%	81.5%	82.4%	81.8%	81.9%
Loss Ratio	25.7%	26.3%	27.8%	27.7%	27.7%
<b>Combined Ratio</b>	<b>109.2%</b>	<b>107.8%</b>	<b>110.1%</b>	<b>109.5%</b>	<b>109.6%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	6.9x	7.4x	6.8x	6.4x	5.9x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	2.3%	7.7%	6.3%	4.6%	4.6%
Net Investment Income	15.3%	34.3%	3.2%	-0.1%	3.3%
Total Revenue	0%	9.8%	8.2%	4.5%	4.6%
Operating Earnings per Share	8.7%	39.2%	-1.2%	11.8%	5.3%
Asset	-2.3%	1.5%	1.0%	1.0%	0.9%
Reported Book Value per Share	-18.8%	15.6%	9.2%	10.1%	9.8%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	12.5%	18.4%	16.1%	16.4%	15.7%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	1.8%	2.5%	2.4%	2.6%	2.6%
Operating Margin	6.0%	7.5%	6.7%	7.0%	6.9%
Long Term Debt to Cap Ratio (Ex FAS 115)	33.5%	30.2%	28.8%	27.2%	25.7%
Net Income % Operating Income	72.0%	87.6%	92.9%	93.0%	93.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Non-Life

## Company Description

Assurant Inc. (AIZ) is a New York-based insurance company that focuses on warranty and specialty property coverages via its two operating segments, Global Lifestyle and Global Housing. Its largest offerings include mobile device protection, automobile protection, lender-placed insurance, and renters insurance.

## Investment Rationale

Since 2015, Assurant has taken steps to reorient its book towards capital-light, higher-growth businesses. We believe its warranty and specialty property focus merits a premium to the P&C space given lower capital requirements and relative insulation from challenging loss cost trends. We believe the current discounted valuation presents a buying opportunity, with continued multiple expansion over the longer term as capital-light businesses comprise a greater percentage of Assurant's book.

## Stock Data

Average Daily Volume 351,602

## Quarterly Earnings Estimates

	2023	2024
Q1	2.75A	3.74E
Q2	3.89A	3.98E
Q3	4.29A	2.98E
Q4	4.58A	4.62E



## Price objective basis & risk

### Assurant (AIZ)

Our price objective of \$215 is based on 75% of the S&P 500 year-ahead P/E multiple of 18x on our 2024E EPS forecast including amortization expense. This is an increase compared to the historical valuation vs the S&P 500 (70%), which we believe is merited given a) Assurant's increasingly capital-light business mix and b) the relative defensiveness of its businesses.

Downside risks to our price objective are a slowdown in capital returns to shareholders, outsized catastrophe losses, loss of a major distribution partnership, and a deceleration in top line growth for the Connected World businesses.

## Analyst Certification

I, Grace Carter, CFA, 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
	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
	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
	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

## 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 &amp; 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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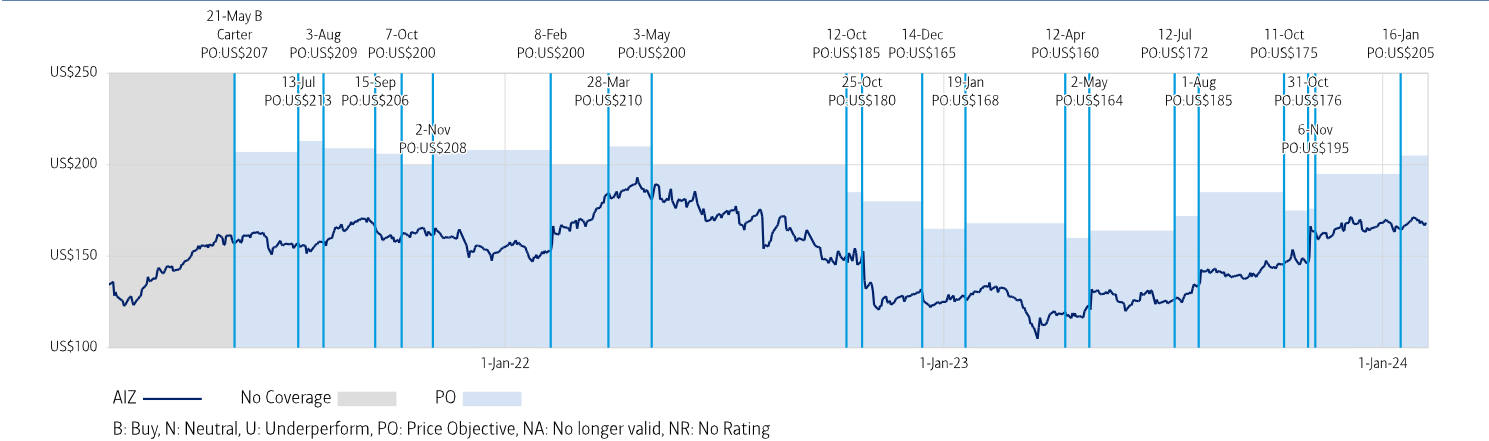
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Assurant (AIZ) Price Chart



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

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%

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

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

<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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