

Aflac

4Q23 earnings miss due to one-off items; commercial real estate concerns linger

Reiterate Rating: BUY | PO: 92.00 USD | Price: 84.34 USD

4Q23 adjusted EPS of \$1.25

Aflac's 4Q23 adjusted EPS came in below our forecast of \$1.59 and consensus estimate of \$1.45. The quarter's result included \$151mn non-economic loss related to novation of reinsurance treaty (-\$0.20/sh), weaker variable investment income (-\$0.04/sh), unfavorable FX (-\$0.02/sh), partially offset by favorable remeasurement gains in both segments (+\$0.10/sh). Despite the adverse impact to the quarter's results, management noted the business ceded back to the company has developed favorably and was received on very favorable terms to Aflac. Share repurchases remained elevated but in-line with previous quarters, with the company repurchasing \$700mn worth of stock.

Improved outlook on US business in 2024 update

Accompanying the earnings release, Aflac provided their 2024 outlook. Management is forecasting improved underwriting results in the US business with a lower benefits ratio between 45-47% (previously 47-50%). Management is expecting incremental improvements in the pre-tax profit margin as the expense ratio is anticipated to decline as the growth initiatives (group life and disability, network dental and visions, and direct-to-consumer) gain scale.

Commercial real estate concerns continue

Aflac increased its current expected credit losses (CECL) reserves and impairments by \$25mn as the company's large commercial real estate portfolio (CRE) continues to be stressed. This follows \$30mn in reserve charges over the previous two quarters. The total CRE watchlist increased \$200mn from the prior quarter to \$1.2bn and noted roughly \$500mn in mortgage loans are in active foreclosure proceedings. While many life insurers have CRE exposure, these issues appear unique to Aflac due to their portfolio of shorter-duration of mortgage loans in its transitional real estate portfolio. We would not be surprised to see additional reserve charges in 2024.

EPS modestly rises; Price Objective remains \$92

While our EPS rises modestly on the favorable 2024 outlook, we are tempering our investment income expectations, partially negating the stronger underwriting forecasts and multiple expansion. Our PO remains \$92, which is predicated on 70% of the year-ahead S&P 500 P/E multiple (18.2x, 18x prior). With improving fundamentals and current potential upside to our PO, we reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.67	6.23	6.70	7.20	7.60
GAAP EPS	6.93	7.78	6.69	7.19	7.59
EPS Change (YoY)	-4.5%	9.9%	7.5%	7.5%	5.6%
Consensus EPS (Bloomberg)		6.44	6.82	7.14	
DPS	1.60	1.68	2.00	2.16	2.32
Valuation (Dec)					
P/E	14.9x	13.5x	12.6x	11.7x	11.1x
GAAP P/E	12.2x	10.8x	12.6x	11.7x	11.1x
Dividend Yield	1.9%	2.0%	2.4%	2.6%	2.8%

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	6.75	6.70
2025E EPS	7.15	7.20
2026E EPS	7.55	7.60

Joshua Shanker
Research Analyst
BofAS
+1 347 821 9017
joshua.shanker@bofa.com

Grace Carter, CFA
Research Analyst
BofAS
grace.carter@bofa.com

Joseph Tumillo, CFA
Research Analyst
BofAS
joseph.tumillo@bofa.com

Cyril Onyango
Research Analyst
BofAS
cyril.onyango@bofa.com

Stock Data

Price	84.34 USD
Price Objective	92.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-1-7
52-Week Range	60.20 USD - 86.20 USD
Mrkt Val (mn) / Shares Out (mn)	49,287 USD / 584.4
Free Float	99.1%
Average Daily Value (mn)	154.20 USD
BofA Ticker / Exchange	AFL / NYS
Bloomberg / Reuters	AFL US / AFLN
ROE (2024E)	0%
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".

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iQprofileSM Aflac

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	14,901	14,123	13,669	13,575	13,515
Net Investment Income	4,020	4,401	3,814	4,114	4,305
Total Revenue	19,140	18,701	17,678	17,884	18,014
Total Cost of Benefits and Claims	(8,887)	(8,214)	(7,859)	(7,904)	(7,862)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(14,271)	(13,443)	(12,966)	(13,021)	(13,017)
Pre-Tax Operating Earnings	4,869	5,258	4,711	4,862	4,996
Income Tax Expense	(451)	(602)	(904)	(927)	(962)
Operating Earnings After Tax	3,616	3,730	3,809	3,936	4,033
Net Income (Reported)	4,418	4,656	3,807	3,935	4,034
Diluted Shares	638	599	569	547	531
Operating Earnings Per Share	5.67	6.23	6.70	7.20	7.60
Net Income (Reported) Per Share	6.93	7.78	6.69	7.19	7.59

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	94,797	91,109	0	0	0
Total Cash and Investments	117,397	113,560	NA	NA	NA
Total Assets	130,993	126,724	125,229	124,636	124,911
Reserves	96,910	91,599	0	0	0
LT Debt	0	0	0	0	0
Total Liabilities	111,598	104,739	104,739	104,739	104,739
Total Equity	20,140	21,985	20,490	19,897	20,172
Total Equity (Ex FAS 115)	20,140	21,985	20,490	19,897	20,172
Book Value per Share (Reported)	32.73	38.00	37.03	37.22	38.69
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	5.4x	6.1x	5.9x	6.2x	6.2x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	-15.6%	-5.2%	-3.2%	-0.7%	-0.4%
Net Investment Income	-6.2%	9.5%	-13.3%	7.9%	4.6%
Total Revenue	-13.4%	-2.3%	-5.5%	1.2%	0.7%
Operating Earnings per Share	-4.5%	9.9%	7.5%	7.5%	5.6%
Asset	-16.5%	-3.3%	-1.2%	-0.5%	0.2%
Reported Book Value per Share	-35.8%	16.1%	-2.6%	0.5%	3.9%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	2.5%	2.9%	3.0%	3.2%	3.2%
Operating Margin	18.9%	19.9%	21.5%	22.0%	22.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	0%	0%	0%	0%	0%
Net Income % Operating Income	122.2%	124.8%	99.9%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	14.0%	13.4%	15.1%	14.8%	14.6%

Company Sector

Insurance - Life

Company Description

Aflac Inc. (AFL) is a life and health insurance company that markets supplemental insurance for individuals in Japan and the U.S. The company insurance policies include cancer insurance, hospital intensive care, home healthcare, accident, and disability insurance. Products are marketed mainly at the worksite on a payroll-deduction basis but also through other channels.

Investment Rationale

We believe the superior and consistent value creation coupled with a potential revenue growth story are mispriced by the market and should gain interest as the company executes. Despite tepid revenue growth over recent years, the stock has traded at a higher multiple (currently at the lower end of the range) where it is now with revenue potentially inflecting.

AFL focus on supplemental health products makes its earnings and balance sheet less sensitive to changes in interest rates than peers.

Stock Data

Average Daily Volume 1,828,295

Quarterly Earnings Estimates

	2023	2024
Q1	1.55A	1.67E
Q2	1.58A	1.68E
Q3	1.84A	1.70E
Q4	1.25A	1.63E

Price objective basis & risk

Aflac (AFL)

Our \$92 price objective for AFL is based on 70% of the year-ahead S&P 500 P/E multiple (18.2x). Aflac had historically traded in parity with the market multiple multiple but experienced a downward revaluation of 20-40% following the financial crises from 2008-2012. Our discount of 30% is at the mid-point of the range, reflecting the company's defensive business model, robust capital management and a potential inflection to revenue growth.

Downside risks to the achievement of our PO are a deterioration in margins, lower-than-expected sales and premium growth, lower-than-projected capital management, and a weaker Japanese yen.

Analyst Certification

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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
	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
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	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
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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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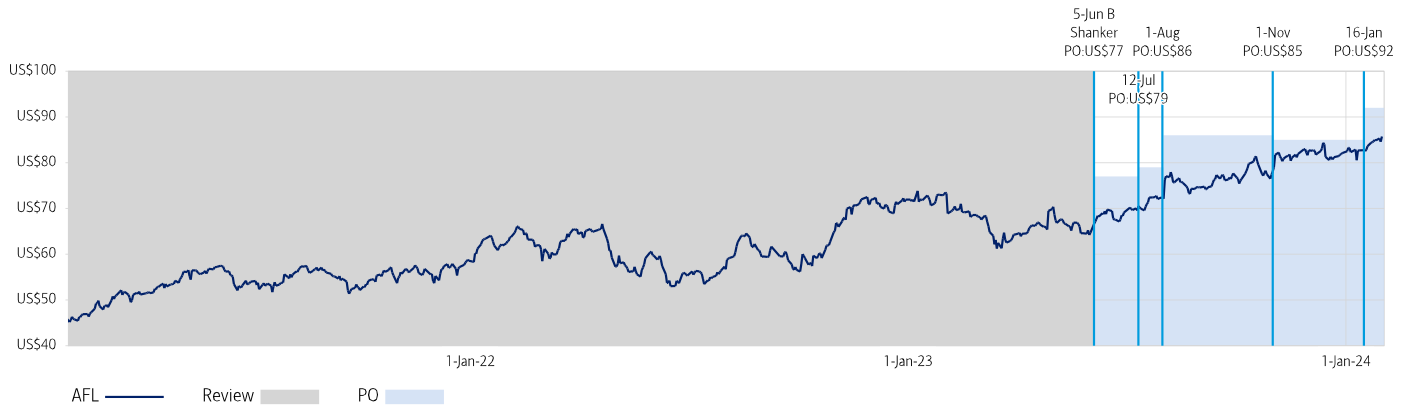
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Aflac (AFL) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{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.

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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.

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