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AIG, Inc. 3Q21 First Look

Stock Rating/Industry View: Equal Weight/Positive

Price Target: USD 59.00

Price (04-Nov-2021): USD 60.39

Potential Upside/Downside: -2%

Tickers: AIG

Our Takeaway

Operating EPS of \$0.97 was below our \$0.99 estimate and above the \$0.89 Street estimate. Relative to our estimates, robust NA and Intl commercial premium growth and slightly better underlying underwriting margin expansion in GI were offset by lower than expected adjusted pre-tax income in L&R and largely anticipated strong NII on elevated levels of alts investment income from PE.

After adjusting significant variances Operating EPS would have been \$1.22. On the revenue side, better than expected after-tax alternative returns of \$483mn contributed \$0.45 to EPS and worse than expected FV change on fixed maturity securities detracted \$14mn, -\$0.01 from EPS. On the expense side, add backs included cat losses of \$646mn, +\$0.60 to EPS and the annual actuarial assumption update charge of \$166mn, +\$0.15 to EPS; reinstatement premiums of \$10mn, -\$0.01 to EPS and favorable PYD of \$50mn, -\$0.05 from EPS. We will learn more on the earnings call of its above trend-COVID 19 losses within L&R.

Highlights:

Prior year reserve development: In total, AIG recorded \$50mn favorable. Looking through the moving parts, we are paying attention to the **\$343mn unfavorable development within NA commercial and unfavorable \$210mn within International commercial lines**, mostly attributable to Global Financial Lines per accident years 2016 through 2018. Keep in mind, for NA that figure is net of favorable PYD from workers' compensation. We are watching these accident years that predated some of AIG's remediation efforts and are post its ADC (2015 and prior). With Mark Lyons going back in the Global Chief Actuary role next year we would like to know if we should anticipate any changes to reserving practices.

Underwriting: Compared to the prior quarter, GI's underlying CR (90.5%) improved ~60 bps sequentially (91.1% in 2Q21) and was better than our 3Q estimate (91.3%). AIG appears to be tracking to achieve an underlying CR in General Insurance (GI) under 90% by YE22. While margin expansion is noteworthy, it is less than other 3Q prints we have seen. Within GI, AIG recorded \$628mn of net cats in 3Q21 (vs. our estimate of \$768mn).

While we usually pay more attention to commercial lines performance, we note that AIG has shown nice underlying margin expansion within NA personal (AYLR ex cat of 57.5% in 3Q21, an improvement from 60.9% in 2Q21 and 60.8% in 3Q20).

Strong Commercial Growth: NA Commercial and Intl Commercial NPW were up considerably +18% y/y and +15% y/y, respectively.

Capital deployment: AIG repurchased ~\$1.1bn in 3Q21, above our estimate of \$1bn. Debt redemptions totaled 1.5bn (4.875% Notes due 2022) in 3Q21. AIG aims to repurchase \$2bn of shares and redeem \$2.5bn of debt before YE21. Parent company liquidity fell to \$5.3bn in 3Q21 from \$7.2bn at 2Q21.

AIG and Blackstone announced on November 2nd the closing of Blackstone's acquisition of a 9.9% equity stake for \$2.2bn in AIG's L&R business. Blackstone will also manage an initial \$50bn of L&R existing investment portfolio (expected to increase incrementally to ~\$92.5bn over the next six years).

3Q21 Key Metrics

 download image

Source: Barclays Research and Company Data.

AIG 3Q21 Earnings Call

Lookout

- **Changing of the Guard:** Gaining a better understanding of the rationale behind the transition of current CFO Mark Lyons to Global Chief Actuary and Head of Portfolio Management, AIG, and potentially hearing from his successor as CFO, AIG, Shane Fitzsimons. The transition becomes effective January 1, 2022. We will like to better understand how Mark Lyon's role will compliment or overlap David McElroy, Head of GI.
- **L&R separation:** Size of IPO driven by market conditions, likely a 1Q event. Now that AIG expects to fully consume its foreign tax credits in 2022 the company is no longer limited to a minority offering size.
 - L&R management team taking shape: Effective October 25th, Elias Habayeb was named CFO, L&R. Previous role was CFO, GI and Deputy CFO, AIG.
- **Capital Management:** We don't anticipate any changes to capital deployment priorities: debt repayment, share repurchases, and utilizing underwriting capacity to grow in hard market. M&A seems to rank lower.
- **LME:** \$2.5bn of debt redemptions is the first cut in 2H21. A debt-driven special dividend from L&R will be the second cut. Part two: approaching ultimate targets of 25% leverage for AIG, Inc. and 25-30% at L&R can be self-funded through IPO raise, hold co liquidity consumption would be make whole provisions/tenders.

Conference Call Details

3Q21 earnings call on Friday, November 5th at 8:30AM EST. The webcast can be viewed on <https://www.aig.com/investor-relations>.

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Mentioned Stocks (Ticker, Date, Price)

AIG, Inc. (AIG, 04-Nov-2021, USD 60.39), Equal Weight/Positive, A/CD/CE/E/J/K/L/M/N

Valuation Methodology: Our Equal Weight rating and \$59 price target are based on a 50/50 weighted average of 11x our 2022 EPS estimate of \$5.25 and 0.8x YE22 estimated book value per share (ex-AOCI) of \$74.6. Our target multiples for AIG are below the P/C insurance group given we expect lower ROEs, especially for GI standalone.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Potential calls on capital to complete a separation. Expansion of underwriting risk appetite too fast too soon and/or over exuberance at hardening pricing that falter AIG's resolve to walk away from business that does not meet risk return hurdles. Unexpected adverse reserve development which would not only impair earnings or capital but undermine the creditability of its underwriting remediation actions to date. Ultimately we think

a smaller capital base post separation may temper AIG's ability to compete at the upper end of the market where we see less trading partners.

Ratings and Price Target History:

AIG, Inc.

Currency=USD



Source: IDC, Barclays Research

| Publication Date | Closing Price | Rating | Adjusted Price Target |
|------------------|---------------|------------------|-----------------------|
| 12-Oct-2021 | 57.40 | | 59.00 |
| 09-Aug-2021 | 51.85 | | 53.00 |
| 12-Jul-2021 | 47.44 | | 50.00 |
| 10-May-2021 | 51.92 | | 53.00 |
| 17-Mar-2021 | 47.67 | | 47.00 |
| 18-Feb-2021 | 42.11 | | 43.00 |
| 12-Jan-2021 | 41.00 | | 41.00 |
| 16-Nov-2020 | 38.49 | Equal Weight | 39.00 |
| 22-Jan-2020 | 52.26 | Coverage Dropped | |
| 02-Oct-2019 | 53.47 | | 67.00 |
| 07-Aug-2019 | 54.41 | | 65.00 |
| 21-May-2019 | 52.50 | | 60.00 |
| 09-Jan-2019 | 41.16 | | 50.00 |
| 12-Nov-2018 | 42.47 | | 62.00 |

On 04-Nov-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 71.00.

Source: Bloomberg, Barclays Research

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