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Life Insurance Stocks Look Cheap and Inviting

By Andrew Bary Follow

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Some stocks are cheap for a reason and stay that way. But other inexpensive stocks can be good values. Life-insurance shares belong in the latter category: Their finances are sound and the industry has gotten better at risk management.

The stocks fell more than 10% in March and trade for an average of 7.5 times projected 2023 earnings, among the market's lowest valuations. Brighthouse Financial (ticker: BHF) and Jackson Financial (JXN) change hands for less than three times estimated 2023 earnings per share.

There are valid reasons for the industry's depressed valuations, including exposure to commercial real estate, but there are also opportunities to be had. Some of the better life-insurance plays are Equitable Holdings (EQH), Corebridge Financial (CRBG), Globe Life (GL), Primerica (PRI), Reinsurance Group of America (RGA), Unum Group (UNM), and Voya Financial (VOYA). Dividends range from 0.8% for Globe Life to 5.7% for Corebridge.

"The life-insurance industry is in a good place," says Andrew Kligerman, a Credit Suisse insurance analyst. "The companies are sound from a liquidity and capital perspective. Since the financial crisis, the industry has improved its risk-management practices."

Several companies, including Voya, Primerica, Globe Life, Unum, and Reinsurance Group, offer good growth prospects in an industry not known for it. Yet, Kligerman says investors might "stay on the sidelines," given concerns about the economy, commercial real estate, and the stock market.

The insurers often have huge asset bases, relative to their equity capital—in some cases, the ratio is 10 to 1, or higher—which makes them vulnerable to credit problems in their bond-oriented portfolios.

The knock on providers is that it's a "mediocre business," and that "tail risk" could arise in a financial crisis, according to J.P. Morgan analyst Jimmy Bhullar. Also, reported profits, particularly for the cheapest stocks, considerably exceed free cash flow.

Investors lately have focused on risks from commercial real estate, particularly given cracks in the office market. Then there is equity-market risk through the industry's exposure to variable annuities, which offer exposure to stocks. While the industry seeks to hedge its dangers, the hedges aren't perfect.

Life insurers hold more than $300 billion of commercial real estate loans and securities, accounting for about 14% of their average assets and 120% of equity, according to KBW. Within the office market, the industry's exposure is more than $80 billion. Companies with above-average office exposure include Equitable, Corebridge, MetLife (MET), and Brighthouse.

The good news: "Life insurers have an extremely favorable record with commercial real estate loans in the past 25 years—losses have been close to zero," says Ryan Krueger, an analyst at KBW.

The average value of loans, relative to appraised property values, is below 60%, meaning there is a considerable cushion before any losses would have to be taken. That doesn't mean there won't be any hits, but Krueger expects them to be modest.

Higher interest rates are favorable for life insurers because they allow them to reinvest proceeds from bond maturities at loftier yields. Another positive: lower Covid mortality. U.S. Covid deaths fell nearly 50% in 2022, to 267,000, and are projected to have totaled about 35,000 in the first quarter of this year.

Insurance stocks trade, on average, at book value, using a measure that excludes unrealized losses on bond portfolios. Adjusted price-to-book value is favored by analysts and most investors because stated book value captures losses on bond portfolios, but not the declining value of insurers' liabilities when rates rise.

Equitable, at around $25, fetches less than five times projected 2023 earnings, and is heavily exposed to commercial real estate and office properties, relative to peers. Still, both Kligerman and Krueger favor the stock. Of real estate, Kligerman says Equitable "holds a higher-than-peer allowance for credit loss on these investments and continues to have a robust excess capital position that could absorb potential investment losses." Kligerman has an Outperform rating on the shares, with a $47 price target.

Equitable's most valuable asset is a 61% stake in asset manager AllianceBernstein Holding (AB) that is worth about $6 billion, or two-thirds of the insurer's current market value. Excluding the AllianceBernstein stake, Equitable trades at just three times earnings.

A spinoff could unlock value and boost liquidity in AllianceBernstein. New York tax expert Robert Willens says Equitable could effect a tax-free spinoff, but it would be complicated. "It's an option and maybe something they should seriously consider," Willens tells *Barron's* in an email.

Equitable has said it views the AllianceBernstein stake as strategic, and points to greater integration of the two businesses.

Down, Not Out

Most life-insurance stocks trade at book value. They're inexpensive, but above trough levels of the past 20 years.

Company / Ticker	Recent Price	52-Week Change	Market Value (bil)	2023E EPS	2023E P/E	P/B Ratio**	Dividend Yield	CRE as % of Equity	Comment
Corebridge Financial / CRBG	$16.25	-22.6%*	$10.5	$3.69	4.4	0.5	5.7%	177%	Blackstone paid double current price for stake
Equitable Holdings / EQH	25.29	-18.4	9.1	5.64	4.5	1.0	3.2	200	Owns valuable stake in AllianceBernstein
Globe Life / GL	107.15	4.7	10.3	10.34	10.4	1.7	0.8	3	Focuses on low-ticket life policies under $50K
Primerica / PRI	177.74	32.2	6.5	15.21	11.7	3.3	1.5	7	Sells term life through large pool of agents
Reinsurance Group of America / RGA	137.20	22.8	9.2	15.93	8.6	0.9	2.3	87	Life reinsurer helped by lower Covid deaths
Unum Group / UNM	39.93	23.5	7.9	6.74	5.9	0.7	3.3	22	Offers life, health policies through employers
Voya Financial / VOYA	74.09	10.0	7.3	8.22	9.0	1.3	1.1	144	Operates money manager with $300 billion in assets

E=estimate; CRE=commercial real estate; *Price change since Sept. 14, 2022 initial public offering; **Price-to-book ratio using book value excluding AOCI (accumulated other comprehensive income)

Sources: Bloomberg; KBW; company reports

Globe Life sells life insurance to low- to middle-income customers, with an average policy size of about $40,000. The shares trade around $107, or for 10 times projected 2023 earnings. "It's an underserved market," says Kligerman, who has an Outperform rating and price target of $140. The company has generated 8% to 10% annual earnings growth, and Kligerman sees bigger gains this year. Its stock yields just 0.8%; the bulk of its capital returns come via stock buybacks.

Primerica targets middle-income customers with term life and other products sold through more than 130,000 agents. Its shares, at around $177, trade for 11.7 times projected 2023 earnings and yield less than 2%. The company is expected to repurchase more than 5% of its stock this year. Primerica reinsures the vast majority of its life-insurance policies, making it more of a “distribution” company, says Kligerman, who has an Outperform rating and price target of $201.

Primerica trades at 3.3 times book value, but its projected 2023 return on equity of nearly 30% is high, compared with 10% to 15% for most life insurers.

Reinsurance Group of America, a leading reinsurer of life-insurance policies, has been helped by fewer Covid deaths. The company, whose stock trades around $137, earned more than $14 a share last year, up from about $1 in 2021, when high Covid mortality nearly wiped out profits. It yields 2.3%.

Krueger rates the stock Outperform, with a $172 price target. Reinsurance trades for 8.6 times projected 2023 earnings of about $16 a share—just under book value. The company could generate mid- to high-single annual earnings growth, he believes.

Unum offers disability, life, and supplemental health policies through employers. Its shares, recently around $40, trade for just six times projected 2023 earnings and yield more than 3%. Krueger upgraded the stock to Outperform from Market Perform in March, citing “a strong and valuable group benefits franchise with mid-single-digit premium growth, mid-to-high teens” return on equity. He has a $52 price target.

Unum's albatross has been long-term care, a business that has stung many insurers, due to much higher-than-expected claims. The company plans to add nearly $1 billion of reserves in 2023. By year end, Unum's long-term care reserves should exceed its expected liabilities by $3 billion or more, KBW estimates.

Voya Financial manages retirement plans for businesses, offers supplemental health benefits, and operates an investment manager with more than $300 billion of assets. Its shares, at around $74, trade for nine times projected 2023 earnings.

The company generated 24% adjusted earnings growth in 2022 and aims for 12% to 17% annual gains. The dividend is 1.1%, but management is considering a boost to 2%. Voya bought back about 10% of its stock in 2022. Kligerman likes its low valuation and business mix. He has an Outperform rating and an $85 price target on it.

American International Group (AIG) took public its life-insurance business as Corebridge Financial in September at $21; the shares now languish around $16. Corebridge is looking to cut costs and hike returns over the next 18 months. It aims for a 12% to 14% return on equity, versus under 11% in 2022. The stock trades for less than five times projected 2023 earnings and half its adjusted book value. Annuity providers like Corebridge have been out of favor, due to investment risks associated with funding those contracts.

Blackstone (BX) paid $2.2 billion, or about $32 a share, in late 2021 for a nearly 10% stake. Kligerman doesn't view that price as indicative of fair value, given that it was accompanied by a lucrative investment management contract for Blackstone, but the stock still appears inexpensive. AIG plans to sell down its 77% stake, an overhang on the stock. But if Corebridge can hit its financial goals, the shares should be absorbed.

Life insurers are varied, complicated, and cheap, and some have surprisingly good growth prospects. They're worth a look.

Corrections & amplifications*: The table published with this article shows commercial real estate holdings as a percentage of equity. A previous version incorrectly labeled the data as commercial real estate as a percentage of assets.*

Write to Andrew Bary at andrew.bary@barrons.com