14th January 2016

Insurance

Aegon

Price EUR5.43

Redemption

Fair Value EUR6.4 vs. EUR6.2 (+18%)

BUY

Bloomberg	AGN NA
Reuters	AEGN.AS
12-month High / Low (EUR)	7.7 / 4.8
Market Cap (EUR)	11,658
Emb. Value (BG Est.) (EUR)	18,936
Avg. 6m daily volume ('000)	9,069
3y EPS CAGR	5.8%

	1 M	3 M	6 M	31/12/14
Absolute perf.	5.4%	-0.1%	-21.3%	-13.2%
Insurance	-3.3%	2.3%	-6.5%	7.5%
DJ Stoxx 600	-3.1%	-3.9%	-13.1%	0.6%

(€m)	2014	2015e	2016e	2017e
Total gross prem.	20,370	21,119	21,821	22,554
% change		*3.7%*	*3.3%*	*3.4%*
Insurance op. profit	1,865	1,964	2,060	2,156
Total operating profit	1,865	1,964	2,060	2,156
Underlying PTP	1,460	646.3	2,210	2,305
% change		*-55.7%*	*NM*	*4.3%*
Net attributable profit	*1,416*	*1,473*	*1,545*	*1,617*
% Change		*4.0%*	*4.9%*	*4.6%*

(€m)	2014	2015e	2016e	2017e
Shareholders' equity	24,293	23,435	23,603	24,718
Technical reserves :				
-Life net (excl. UL)	127,286	133,650	140,333	147,349
-UL contracts	194,099	203,804	213,994	224,694
-P&C net	7,443	7,815	8,206	8,616
NAV net of intangibles	21,043	20,022	20,019	20,955
Embedded value	18,936	19,958	21,030	22,154

(€)	2014	2015e	2016e	2017e
EPS (€)	0.67	0.70	0.75	0.80
% change	-	*4.2%*	*6.7%*	*6.5%*
P/E	8.1x	7.8x	7.3x	6.8x
P/NAV (%)	0.5x	0.5x	0.5x	0.5x
ROE	5.4	2.1	7.3	7.5
Dividends	0.23	0.25	0.28	0.31
Div yield (%)	4.2%	4.6%	5.1%	5.7%

Aegon yesterday highlighted the 3 key pillars of its 2016-2018 strategy: solvency (Solvency II ratio in the 140-170% range), profitability (ROE up to 10% by 2018) and shareholder return (EUR2.1bn to be returned by 2018 through dividend and share buybacks). Yesterday's share price reaction (+10%) was justified, as the plan addresses the right topics and is pretty convincing. Yet we continue to believe that, at this point, Aegon still deserves some discount to peers (but maybe not 30%) as the fundamentals are not as strong as those of AXA or Allianz and it has to rebuild a track record. Remember higher US rates and a strong USD are also positive for the equity story.

ANALYSIS

- The Solvency II margin at end-2015 (based on an approved partial internal model) is c. 160%, which is OK considering the guidance the company provided last summer (140-170%). The company has stated that this 140-170% range corresponds to its optimal one given the low market sensitivity of the ratio. As such, the bad news is that this range is below current industry standards (170-220%) and this may sound aggressive for the current early hours of Solvency II. But the good news is that Aegon's strategy will not be constrained by the need to build up the capital position.
- The company plans to drive ROE up to 10% by 2018 (vs. 8.5% adjusted in 2015e), mainly via cost savings (annual operating expenses cut of EUR0.2bn by 2018, mainly in the Americas and in Europe) and organic growth (fee business in the Americas, business development in CEE, Asia and Asset Management). We see i/ the restructuring of the US operations into a functionally-organised business, and ii/ the "exploration of options" for some non-core businesses (e.g. UK annuity book, NL commercial non-life, as positive.
- Operational free cash flows for the 2016-2018 period are expected to reach EUR4.2bn, which should translate into EUR3.3bn cumulative group free cash flows (after remittance to the holding company and holding company expenses). As a consequence, the company plans to return EUR2.1bn to shareholders over the period, in the form of dividends (EUR1.7bn) and share buybacks (EUR0.4bn in 2016, of which EUR0.2bn before the end of March 2016). The proposed dividend for H2 2015 is EUR0.13, i.e. EUR0.25 for FY 2015 (up 9%), equivalent to a 4.6% yield.

VALUATION

- No change to our numbers, as they already integrate some of today's announcements. At this stage we do not deem it reasonable to give the company the full credit.
- We slightly raise our dividend expectations (+1c for 2016 and +2c for 2017).
- We take into consideration the 2016 share buyback program.
- Our new fair value is EUR6.4 vs. EUR6.2.

NEXT CATALYSTS

- FY 2015 numbers on 19th February.

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BUY ratings 58.8% NEUTRAL ratings 32.1% SELL ratings 9.2%

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