AFLAC INC

AFL INC

NYSE: AFL

September 3, 2017

BUY

HOLD

SELL

BUY

RATING SINCE 02/16/2016

TARGET PRICE

$95.35

AFL BUSINESS DESCRIPTION

Aflac Incorporated, through its subsidiary, American Family Life Assurance Company of Columbus, provides supplemental health and life insurance products. It operates through two segments, Aflac Japan and Aflac U.S.

STOCK PERFORMANCE (%)

3 Mo. 1 Yr. 3 Yr (Ann)

Price Change 9.51 11.28 10.46

GROWTH (%)

Last Qtr 12 Mo. 3 Yr CAGR

Revenues -0.17 5.46 -1.10
Net Income 30.10 4.23 -2.75
EPS 35.60 8.86 1.55

RETURN ON EQUITY (%)

AFL Ind Avg S&P 500

Q2 2017 12.48 8.91 13.16
Q2 2016 11.42 8.30 11.83
Q2 2015 15.54 9.74 13.71

P/E COMPARISON

AFL 12.45
Ind Avg 47.38
S&P 500 24.65

EPS ANALYSIS1 ($)

2015 2016 2017

0.151 0.132 0.132 0.174 0.132 0.153 0.134 0.147 0.129

1 Compustat fiscal year convention is used for all fundamental data items.

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2015 2016 2017

0.151 0.132 0.132 0.174 0.132 0.153 0.134 0.147 0.129

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Sector: Financial Services | Sub-Industry: Life & Health Insurance | Source: S&P

RECOMMENDATION

We rate AFLAC INC (AFL) a BUY. This is based on the convergence of positive investment measures, which should help this stock outperform the majority of stocks that we rate. The company’s strengths can be seen in multiple areas, such as its increase in stock price during the past year, growth in earnings per share, largely solid financial position with reasonable debt levels by most measures, notable return on equity and increase in net income. We feel its strengths outweigh the fact that the company shows weak operating cash flow.

HIGHLIGHTS

Compared to where it was a year ago today, the stock is now trading at a higher level, reflecting both the market’s overall trend during that period and the fact that the company’s earnings growth has been robust. Turning our attention to the future direction of the stock, it goes without saying that even the best stocks can fall in an overall down market. However, in any other environment, this stock still has good upside potential despite the fact that it has already risen in the past year.

AFLAC INC has improved earnings per share by 35.6% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past year. We feel that this trend should continue. During the past fiscal year, AFLAC INC increased its bottom line by earning $6.43 versus $5.56 in the prior year. This year, the market expects an improvement in earnings ($6.70 versus $6.43).

Although AFL’s debt-to-equity ratio of 0.24 is very low, it is currently higher than that of the industry average.

The return on equity has improved slightly when compared to the same quarter one year prior. This can be construed as a modest strength in the organization. Compared to other companies in the Insurance industry and the overall market on the basis of return on equity, AFLAC INC has outperformed in comparison with the industry average, but has underperformed when compared to that of the S&P 500.

The net income growth from the same quarter one year ago has exceeded that of the S&P 500, but is less than that of the Insurance industry average. The net income increased by 30.1% when compared to the same quarter one year prior, rising from $548.00 million to $713.00 million.

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**INDUSTRY ANALYSIS**

The US insurance industry provides a broad range of financial security products for individuals and businesses. The industry includes primary insurers, reinsurers and agency and brokerage firms. Insurance companies can be categorized into life and health, property and casualty and reinsurance. Premiums and investment income are the primary component of overall revenue. The industry is mature and dominated by large companies with intense price competition. The US insurance industry has witnessed a great deal of merger and acquisition activity in recent years.

The life insurance industry remains highly competitive due to rapid product development and shortened product life-cycles. In recent years, the L&H segment has been characterized by a dramatic product shift from traditional life insurance to annuity and retirement asset management. Life insurance in the US expanded to more than $578 billion, or nearly half of total business line. This can be attributed to an increased focus on retirement and estate planning, which has led to robust sales of combined savings protection products and annuities. The trend toward the single premium business and pension and annuities products drove sales. Sweeping national health insurance reform was signed into law in 2010 that allows young people to stay on their parent’s health plan, begins to close the Medicare drug plan donut hole, and phases in mandatory coverage of all Americans.

Significant challenges have arisen for property and casualty insurance companies. However, the absence of any recent major casualty or natural calamity has benefited the industry.

The US reinsurance market has entered a soft phase of the cycle and will remain as such assuming no major catastrophes in the coming quarters. The primary and reinsurance sectors experienced divergent pricing trends, but the reinsurance market remains relatively stable.

The insurance industry is not immune to the financial troubles that plague the rest of the US economy. Despite having minor exposure to higher risk mortgage-related assets, the slowdown in the US economy may adversely impact insurers’ performance in the near future. Insurers face challenges related to catastrophe losses, increasing price pressure and changes in the legal and regulatory environment, all of which could erode future underwriting performance and profitability. On a positive note, US insurers may embrace international market opportunities in response to increased market saturation at the domestic level.

**PEER GROUP: Insurance**

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Recent Price ($)</th>
<th>Market Cap ($M)</th>
<th>Price/Earnings</th>
<th>Net Sales TTM ($M)</th>
<th>Net Income TTM ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFL</td>
<td>AFLAC INC</td>
<td>82.55</td>
<td>32,626</td>
<td>12.45</td>
<td>22,408.00</td>
<td>2,685.00</td>
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<td>TMK</td>
<td>TORCHMARK CORP</td>
<td>2.08</td>
<td>8,953</td>
<td>17.07</td>
<td>4,017.78</td>
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<td>MET</td>
<td>METLIFE INC</td>
<td>48.83</td>
<td>50,382</td>
<td>520.33</td>
<td>63,383.00</td>
<td>199.00</td>
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<td>PRU</td>
<td>PRUDENTIAL FINANCIAL INC</td>
<td>102.08</td>
<td>43,588</td>
<td>11.43</td>
<td>57,173.00</td>
<td>3,971.00</td>
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<td>MFC</td>
<td>MANULIFE FINANCIAL CORP</td>
<td>19.64</td>
<td>38,850</td>
<td>10.73</td>
<td>39,485.00</td>
<td>3,785.00</td>
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<td>CNO</td>
<td>CNO FINANCIAL GROUP INC</td>
<td>22.35</td>
<td>3,778</td>
<td>9.76</td>
<td>4,152.30</td>
<td>398.50</td>
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<tr>
<td>SLF</td>
<td>SUN LIFE FINANCIAL INC</td>
<td>38.39</td>
<td>23,560</td>
<td>9.14</td>
<td>25,438.00</td>
<td>2,684.00</td>
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<td>PFG</td>
<td>PRINCIPAL FINANCIAL GRP INC</td>
<td>62.52</td>
<td>18,066</td>
<td>14.21</td>
<td>12,599.50</td>
<td>1,284.50</td>
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<td>LNC</td>
<td>LINCOLN NATIONAL CORP</td>
<td>67.86</td>
<td>15,033</td>
<td>10.41</td>
<td>13,856.00</td>
<td>1,502.00</td>
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<td>AEG</td>
<td>AEGON NV</td>
<td>5.70</td>
<td>13,628</td>
<td>8.38</td>
<td>61,157.35</td>
<td>1,920.30</td>
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<tr>
<td>UNM</td>
<td>UNUM GROUP</td>
<td>48.18</td>
<td>10,873</td>
<td>11.61</td>
<td>11,188.90</td>
<td>959.00</td>
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</tbody>
</table>

The peer group comparison is based on Major Life & Health Insurance companies of comparable size.

**REVENUE GROWTH AND EBITDA MARGIN**

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $3.8 Billion and $50.4 Billion.

Companies with NA or NM values do not appear.

**REVENUE GROWTH AND EARNINGS YIELD**

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -32.2% and 37.6%. Companies with NA or NM values do not appear.
COMPANY DESCRIPTION
Aflac Incorporated, through its subsidiary, American Family Life Assurance Company of Columbus, provides supplemental health and life insurance products. It operates through two segments, Aflac Japan and Aflac U.S. The Aflac Japan segment offers various voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit plans, ordinary life insurance plans, and annuities in Japan. The Aflac U.S. segment provides products designed to protect individuals from depletion of assets comprising accident, cancer, critical illness/care, hospital indemnity, fixed-benefit dental, and vision care plans; and loss-of-income products, such as life and short-term disability plans in the United States. The company sells its products through sales associates and brokers, independent corporate agencies, individual agencies, and affiliated corporate agencies. Aflac Incorporated was founded in 1955 and is headquartered in Columbus, Georgia.

AFLAC INC
1932 Wynnton Road
Columbus, GA 31999
USA
Phone: 706-323-3431
http://www.aflac.com

STOCK-AT-A-GLANCE
Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of AFL shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR | SCORE | DESCRIPTION
--- | --- | ---
Growth | 3.0 out of 5 stars | Measures the growth of both the company’s income statement and cash flow. On this factor, AFL has a growth score better than 50% of the stocks we rate.
Total Return | 4.5 out of 5 stars | Measures the historical price movement of the stock. The stock performance of this company has beaten 80% of the companies we cover.
Efficiency | 4.5 out of 5 stars | Measures the strength and historic growth of a company’s return on invested capital. The company has generated more income per dollar of capital than 80% of the companies we review.
Price volatility | 5.0 out of 5 stars | Measures the volatility of the company’s stock price historically. The stock is less volatile than 90% of the stocks we monitor.
Solvency | 4.5 out of 5 stars | Measures the solvency of the company based on several ratios. The company is more solvent than 80% of the companies we analyze.
Income | 4.0 out of 5 stars | Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 70% of the companies we track.

THE STREET RATINGS RESEARCH METHODOLOGY
TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.
### Consensus EPS Estimates ($)

IBES consensus estimates are provided by Thomson Financial.

<table>
<thead>
<tr>
<th>Consensus EPS Estimates ($)</th>
<th>Q3 FY17</th>
<th>2017(E)</th>
<th>2018(E)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.64</td>
<td>6.70</td>
<td>6.84</td>
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</tbody>
</table>

### FINANCIAL ANALYSIS

AFLAC INC’s gross profit margin for the second quarter of its fiscal year 2017 has increased when compared to the same period a year ago. Even though sales decreased, the net income has increased, representing an increase to the bottom line.

During the same period, stockholders’ equity (“net worth”) has remained virtually unchanged only decreasing by 4.64% from the same quarter last year.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
AFLAC INC

Valuation
BUY. AFLAC INC’s P/E ratio indicates a significant discount compared to an average of 47.38 for the Insurance industry and a significant discount compared to the S&P 500 average of 24.65. Conducting a second comparison, its price-to-book ratio of 1.52 indicates a significant discount versus the S&P 500 average of 3.07 and a discount versus the industry average of 1.83. The current price-to-sales ratio is well below the S&P 500 average and is also below the industry average, indicating a discount. Upon assessment of these and other key valuation criteria, AFLAC INC proves to trade at a discount to investment alternatives within the industry.

Price/Earnings
AFL 12.45 Peers 47.38
• Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
• AFL is trading at a significant discount to its peers.

Price/Projected Earnings
AFL 12.07 Peers 15.28
• Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
• AFL is trading at a discount to its peers.

Price/Book
AFL 1.52 Peers 1.83
• Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
• AFL is trading at a discount to its peers.

Price/Sales
AFL 1.46 Peers 1.48
• Average. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
• AFL is trading at a valuation on par with its industry on this measurement.

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