American International Group Inc.

Isin / FactSet Code	**US0268747849 / AIG-US**	Market cap (in EUR mn)	**48 246**	52-week high	**67.47**	Rating	**NEUTRAL**
Sector	**Financials**	Market cap (in local curr. mn)	**55 852**	52-week low	**57.90**	12-month target price	**65.00**
Industry	**Insurance**	Local currency	**USD**	YTD return%	**-4.87**	Last Price (07/11/17)	**62.13**
Benchmark	**MSCI AC World / Financials -SEC**	Free-float	**100%**	12-month return%	**4.81**	Potential upside	**5%**

Investment Case:

- AIG's continued reserve strengthening and specifically the reserve charge of USD 5.6 bn in 4Q16 highlights the poor pricing of its business written in earlier years. Although reinsurance deals with Swiss Re & Berkshire should reduce volatility in AIG's long-tail P&C lines, uncertainty persists about its reserve adequacy.
- For Commercial Insurance, AIG is targeting an accident year (AY) loss ratio of 63% by FY17 (66.7% in FY16). We believe this would be difficult to achieve given the challenging market conditions and potential claims inflation (if economic activity remains robust).
- On the Consumer Insurance, the recent uptick in US treasury yields should support Life & Retirement results. However, this may be partially offset by lower alternate investment income (due to reduced allocation to hedge funds) and limited flexibility to reduce crediting rates (as a large share of AIG's liabilities has minimum guarantees).
- Our target price of USD 65.00 implies 0.75x P/BV (near the upper band of its five-year range) on an FY18E BV of USD 86/share.

Five-year Performance vs. Benchmark (rebased to 100)

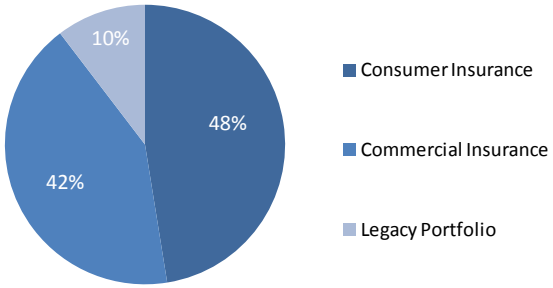
Sources: SGPB, FactSet

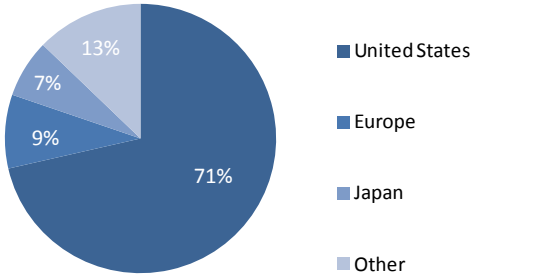
Company Description:

American International Group (AIG) is a leading global insurance company with assets of USD 498.2 bn in FY16. It has a leadership position in the global property and casualty (P&C) insurance market and a strong presence in the US Life Insurance industry. Through United Guaranty Corp (UGC), it provides mortgage insurance products and services.

Revenue by Key Segments & Geographies: FY16

(FY ending December)





Sources: SGPB, FactSet

Recent Developments Analysis:

- AIG's 3Q17 adjusted net loss of USD 1.1 bn was higher than the consensus of USD 575 mn. The results were primarily impacted by catastrophe (CAT) losses of USD 3.0 bn from Hurricane Harvey, Irma and Maria. Also, the prior accident year loss reserves were strengthened by USD 836 mn (USD 705 mn relates to accident year 2016) in the Commercial long-tail lines.
- Commercial Insurance pre-tax operating income (PTOI) of USD -2.86 bn was led by an increase in AY loss ratio to 75.1% due to increases in reserves and combined ratio to 102.1%. Net premiums written also declined 15% to USD 11.2 bn while the normalised ROE declined to 3.8% (from 8.6% in 3Q16).
- Consumer Insurance PTOI came in at USD 1 bn (-18% YoY), helped by strong life insurance results due to higher premium and lower operating expenses. Group Retirement PTOI rose 16% to USD 249 mn while the Individual retirement PTOI was weak (-22% to USD 718 mn) due to lower premiums & deposits and run-off of higher yielding assets in low yield environment.
- Overall, the operating trends were weak in the commercial lines and reserve strengthening of USD 836 mn poses serious doubts over AIG's ability to correctly price its commercial insurance business.

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American International Group Inc.

DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			BALANCE SHEET		
FactSet	Company	Cap (m€)	P/BV (e)		P/E (e)		Div. Yield	Total Income Growth		EPS Growth		Combined Ratio	Net Margin	ROE	Net Debt/ Equity		RBC Ratio
			FY1x	FY2x	FY1x	FY2x	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%	FY0%	FY1%	FY0%
ALV-DE	**Allianz SE**	91 806	1.3	1.3	12.5	11.9	4.0	-4.8	2.7	6.9	5.8	95.2	6.1	10.6	29.7	29.4	na
MET-US	**MetLife, Inc.**	49 439	1.2	1.1	12.0	11.4	3.0	-7.2	0.7	-1.3	5.2	na	7.5	10.0	3.3	4.1	537.0
ZURN-CH	**Zurich Insurance Group AG**	39 137	1.4	1.4	14.7	12.3	5.9	0.0	1.7	-4.8	19.3	103.3	6.0	9.9	36.6	35.9	na
PRU-US	**Prudential Financial, Inc.**	41 130	1.4	1.3	10.8	9.9	2.7	-1.0	2.7	13.9	9.0	na	8.8	12.5	29.1	29.6	484.0
HIG-US	**Hartford Financial Services**	17 208	1.2	1.1	15.3	12.1	1.7	-0.2	5.9	8.2	26.7	100.0	7.4	7.7	29.9	29.9	490.0
	Average:		**1.3**	**1.2**	**13.1**	**11.5**	**3.4**	**-2.6**	**2.7**	**4.6**	**13.2**	**99.5**	**7.2**	**10.1**	**25.7**	**25.8**	**503.7**
AIG-US	**American International Group**	48 486	0.8	0.7	22.5	12.5	2.1	-8.6	-1.3	673.1	80.3	97.5	5.5	5.2	40.5	42.8	502.0

na=Not available, nm=Not meaningful
Financial terms detailed in glossary
Sources: SGPB, FactSet

Risks To Our Investment Case:

- Near-term concerns include execution risk on the ongoing restructuring and a potential decline in investment income as AIG is reducing exposure to alternative investments.
- AIG's goal to improve the loss ratio (by 6 ppt) could be hampered by competitive pricing and the continued accretion of reserve charges. These factors could limit capital up-streaming from its operating subsidiaries and pose a risk to its targeted capital returns.
- Interest rates remaining low for a prolonged period could impact investment income as the company has significant exposure to the guaranteed business.
- New rules from the Department of Labor could pressurise variable annuity sales in the US as brokers and insurers become less proactive in selling the product.

Business Quality Review:

- Post the hurricane losses, we expect better pricing of risk for insurers. Also, P&C margins should witness gradual improvement due to improvement in loss ratios. However, high deferred tax assets on balance sheet could witness a decline in economic value in the event off a decline in corporate tax rate.
- Premium growth could be impeded by de-emphasis on long-tail business, non-renewal of certain policies, strict underwriting and greater use of reinsurance.

Capital Management Policy:

- AIG targets to return USD 25 bn to shareholders over FY16–17 via dividends and buybacks. Key sources of capital include operating earnings, non-core divestments, run-off from legacy books and balance-sheet optimisation.
- AIG returned USD 13.1 bn to shareholders in FY16 and repurchased additional shares of USD 7.68 bn from 1 January to 2 November 201 . AIG has a liquidity of USD 6.7 bn as of 3Q17.

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Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND YIELD: Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

Appendix

Investment Rating Definitions:

Buy	Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
Neutral	Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
Sell	Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
Restricted	Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.
Termination	Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

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Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

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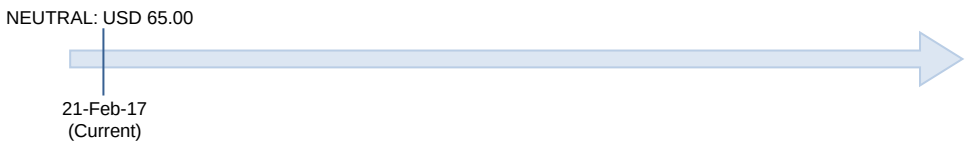
Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

1Y Target Price:



Equity Note Timeline: First disseminated: 08-Jul-16 | Last updated: 4pm Paris time, 08-Nov-17

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Risk Classification:

R0: Lowest Risk
R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

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