

## Investment ideas. Stocks.

Lincoln National Corporation (LNC US) is a U.S. company providing diverse solutions including annuities, life, group life, disability and dental insurance, employer-sponsored retirement plans, savings plans, and comprehensive financial planning and advisory services. It has fundamentally strong position and is substantially undervalued with reference to market multipliers as compared to equivalents.

Company	LINCOLN NATIONAL
Ticker	LNC US
<b>Sector</b>	<b>Insurance</b>
Capitalization, \$ million	9,169
BV, \$ million	20,838
Dividend yield	3.4%
Entry level,	\$ 45.0
Current price, \$	48.0
Result	6.7%

Source: Bloomberg

### Key investment attractiveness factors:

- 1) **Growing demand for life insurance.** According to MIB Group, the number of applications for life insurance policies spiked 4% in 2020. This has been a record year-on-year growth figure in this segment since 2001. The increase in the number of applications was catalyzed by nagging concern about COVID-19 death rates extensively spread by media. Interestingly, the growth was mainly driven by younger people: the number of applications from persons under 45 increased by 7.9% (and by only 3.8% from people aged 45 – 59). We won't rule out possibility this trend will remain in the future, which will undoubtedly have a positive effect on Lincoln National's performance.
- 2) **Finance: high profitability and dividends, and low debt.** According to forecasts, the company is expected to show revenue growth at 1.5% due to the increase in demand for insurance in 2020. On the other hand, net profit may decrease due to growing insurance payouts. At the same time, Bloomberg expects profit figures to return to growth in 2021. Apart from that, there are benefits such as high operating margin (about 34%), good dividends (yield at 3.4%), and low debt burden (net debt to operating margin at 0.6x).
- 3) **Substantial discount with reference to multipliers.** Lincoln National's stock is traded momentarily substantially cheaper than U.S. benchmarks in insurance companies sector. Discount for P/S multiplier is around 97%, for P/Book Value — 345%, and for P/E — 119%.

Key risks. In theory, growing COVID-19 death rates can do the company more harm than good, because in this case insurance premiums will grown as well, which will put pressure on net profit. Low rates are a risk too, since companies invest the major portion of insurance premiums in high-rated bonds. Additionally, competition is very tight today in the U.S. insurance and finance consulting sector.

<b>Financial highlights, \$ million</b>	<b>2019</b>	<b>2020P*</b>	<b>2021P*</b>	<b>Change, %</b>
Revenue	17,868	18,129	18,733	3%
Operating profit (EBIT)	5,513	6,164	6,557	6%
Net profit	1,355	856	1,780	108%
EPS	6.8	4.5	9.3	108%
<i>Operating margin</i>	<i>31 %</i>	<i>34%</i>	<i>35%</i>	<i>1%</i>
Net margin	8%	5%	10%	5%
<b>Debt burden, \$ million</b>	<b>2018</b>	<b>2019</b>	<b>2020P*</b>	<b>Change, %</b>
Gross debt	5,839	6,607	6,714	2%
Cash	2,345	2,563	2,595	1%
Net debt	3,494	4,044	4,119	2%
Net debt/EBIT	0.6	0.7	0.6	-4%
<b>Benchmarking against similar companies</b>	<b>Country</b>	<b>P/S2021</b>	<b>P/BV2021</b>	<b>P/E2021</b>
UNITEDHEALTH	USA	1.2	4.7	18.7
ANTHEM	USA	0.6	2.2	12.1
METLIFE	USA	0.7	0.7	8.1
MANULIFE	USA	0.9	1.0	7.8
AFLAC	USA	1.5	1.1	9.8
PRUDENTL	USA	0.6	0.5	7.1
SUN LIFE	USA	1.4	1.7	10.3
GREAT-WEST	USA	0.5	1.4	
<b>Weighted average</b>		<b>1.0</b>	<b>2.0</b>	<b>11.3</b>
<b>LINCOLN NATIONAL</b>	<b>USA</b>	<b>0.5</b>	<b>0.4</b>	<b>5.2</b>
<i>Discount/(premium)</i>		<i>97%</i>	<i>345%</i>	<i>119%</i>

\*P – Projection

Source: Bloomberg

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