

December 10th, 2018

## AXA Equitable Holdings Inc: (EQH)

Louise Lapras

Sector: Financials

Industry: Diversified financial services

Current Price: \$17.34

Target Price: \$20.15

### Company Description: Company

**Description:** AXA Equitable Holdings, Inc. provides various financial services worldwide. It operates through four segments: Individual Retirement, Group Retirement, Investment Management and Research, and Protection Solutions. The company was founded in 1859 and is based in New York, New York. AXA Equitable Holdings, Inc. is a subsidiary of AXA S.A., based in Paris, France. AXA Equitable Holdings, Inc. (EQH) is quoted on the NYSE since May 9, 2018.

### BUY

|                     |         |
|---------------------|---------|
| Current Price:      | \$17.34 |
| Target Price 1Y:    | \$20.15 |
| Market Cap:         | 9.2B    |
| Avg volume:         | 6.6M    |
| Shares outstanding: | 559M    |
| P/TangBV LTM:       | 1.3x    |



### Thesis:

AXA Equitable Holdings Inc. (EQH), an insurance company that has been showing a great financial performance since its IPO. Q3 results was an exceptional term displaying a high growth in the revenue and profit. The company is expected to be moving in the same positive path due to the margin expansion and the investment management unit of AB.

### Catalysts:

- Short Term(within the year): margin expansion
- Long Term(3+): Retirement insurance expansion

## **Business description:**

AXA Equitable Holdings, Inc. provides various financial services worldwide. It operates through two complementary franchises in the United States: AXA Equitable Life Insurance Company and AllianceBernstein within four segments: Individual Retirement, Group Retirement, Investment Management and Research, and Protection Solutions. The Individual Retirement segment offers a suite of variable annuity products, which are primarily sold to affluent and high net worth individuals. The Group Retirement segment provides tax-deferred investment and retirement plans sponsored by educational entities, municipalities, and not-for-profit entities, as well as small and medium-sized businesses. The Investment Management and Research segment offers diversified investment management, research, and related solutions to a range of clients; and distributes its institutional research products and solutions. The Protection Solutions segment provides a range of universal life, indexed universal life, and term life products to help affluent and high net worth individuals, as well as small and medium-sized business owners; and a suite of life, short- and long-term disability, dental, and vision insurance products to small and medium-size businesses. EQH was founded in 1859 and is based in New York, New York. AXA Equitable Holdings, Inc. is a subsidiary of AXA S.A., based in Paris, France.

EQH covers about 5.3M clients with over 12,100 employees in the US, representing \$668B of asset management as of Q3 2018.

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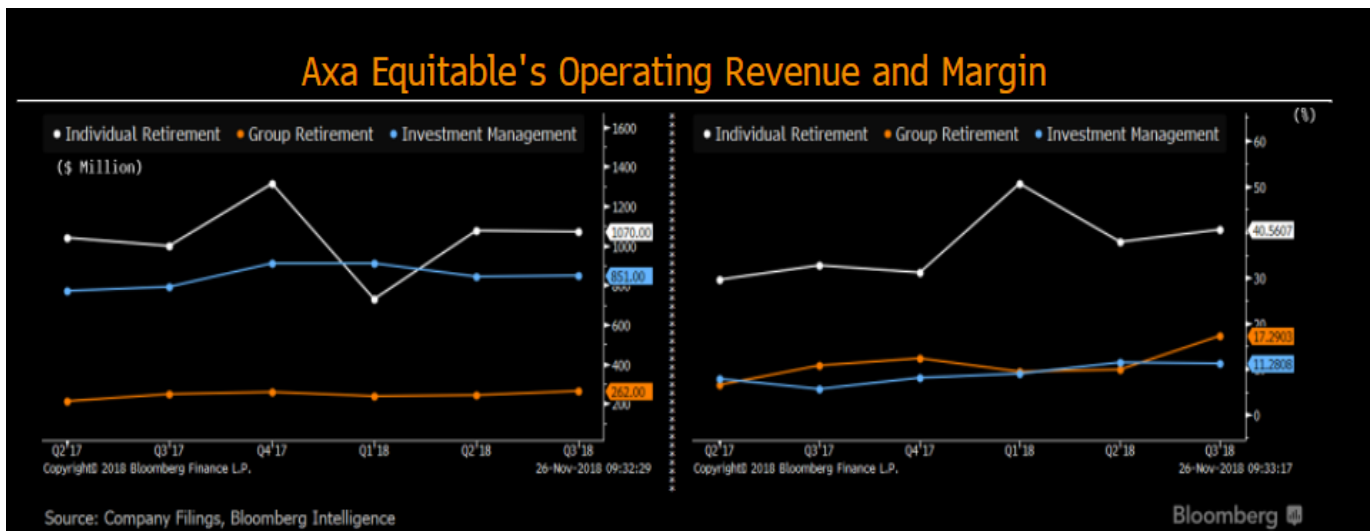
## **Financial Performance:**

In Q3, AXA Equitable posted a solid 3Q results that reflected mostly favorably underlining business trends, putting the company on a good trajectory to extend its positive EPS momentum into 1H. Investment income continues to step higher sequentially as the company optimizes its portfolio and expenses were well controlled. Up just 3% overall and easing 3% in the insurance units.

Profit in the individual annuity and asset management segments benefited from higher fee income. As asset balances increases, cash flows in these units were healthy, with AllianceBernstein at \$1.3billipon while the company's active variable annuity products generated net cash flows of \$700M. Protection segment volatility is expected to abate with the company having established positive actuarial margin in their last Quarter.

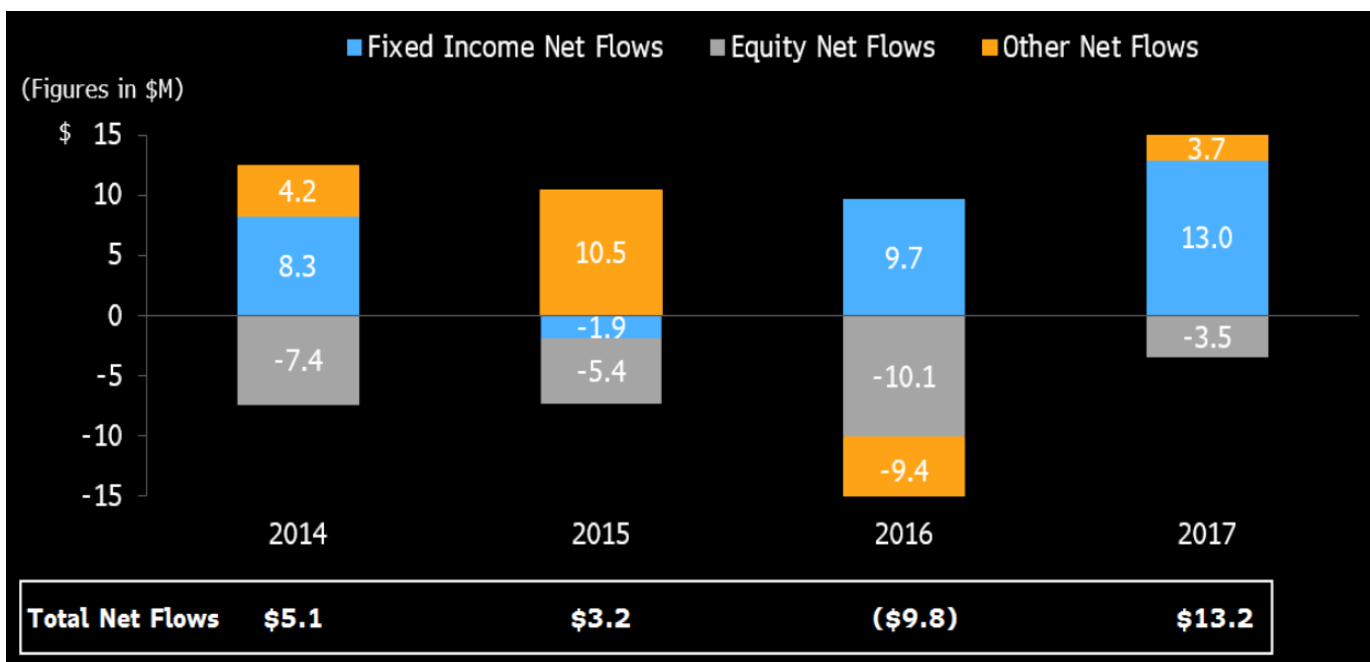
## **AXA Equitable's margin expansion:**

Profitability is expected to remain strong in Q1 of 2019. After EQH's pretax operating margin improved by 440bps in 1Q until 3Q to 29%. This reflects a boost in its AllianceBernstein ownership stake and expectation for \$75 million in cost saving by 2020. Profitability in the protection-solution business should also be more stable give than AXA has exited a loss-recognition testing. AXA Equitable's operating rose 1% 1Q-3Q. This pace is likely to keep persisting, and it was led by sales growth in individual insurance and portfolio adjustments that is expected to add \$160 million to net investment in 2020. A pressured equity market could be a top-line drag for AllianceBernstein and AXA Equitable's retirement units.



## AXA Equitable's AB unit:

Underlying trends at EQH investment management unit, AllianceBernstein AB, have been mostly healthy in the recent years, despite the industry headwinds. An above average pipeline, a focus on costs including moving its headquarters, and generally a solid investment performance bode well for 2019. Though a large outflow hurt 2Q, net flows exceeded \$10B between 2014-2017. In addition, there is a flat fee rate in the current years. For 2Q, on a 5-year basis, the portion of AB's active strategy institutional assets outperforming was 91% for Fixed Income and 73% for equities. AB, which has a \$540 billion in assets under management, was 19% of EQH's 2Q operating profit. After the IPO that happened in May, EQH's stake in AB, which is publicly traded, was 65% vs 47% in 2017.

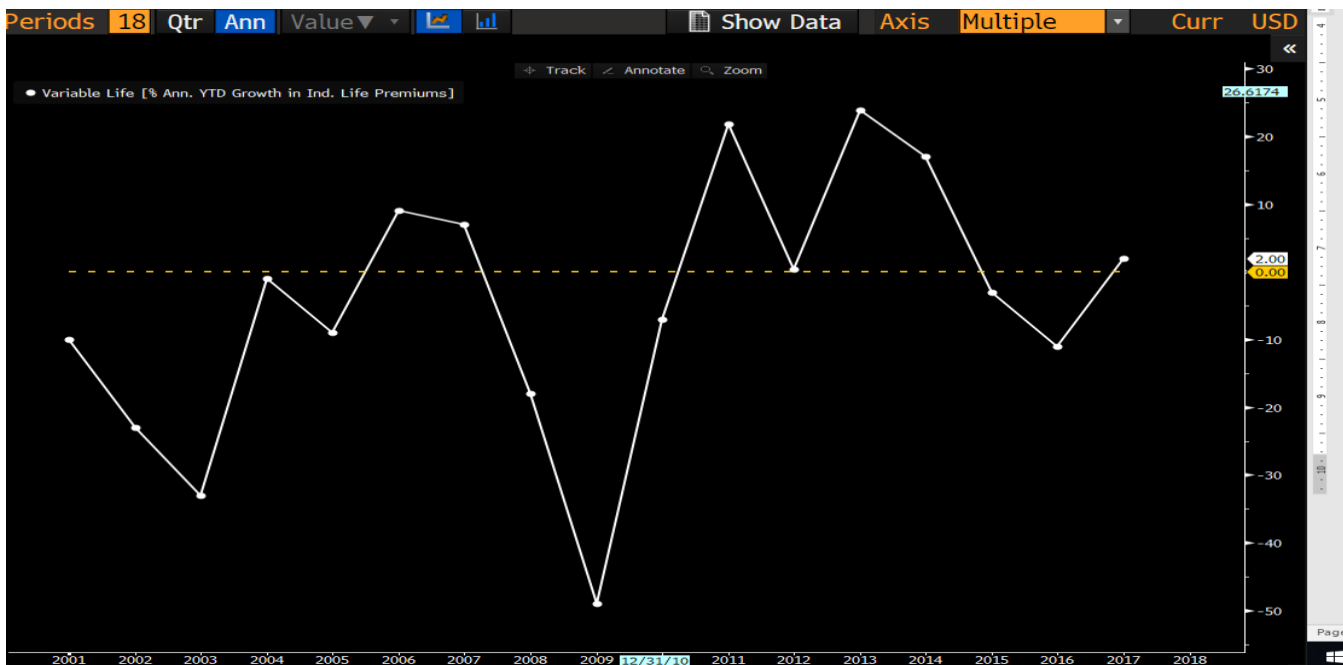


## YoY% change in the industry variable life sales:

Through the first year, premiums are up by 11% in 2018, the near-term outlook for Axa Equitable's protection segment. Which accounted for what is close to 5% of 1H operating profit. The unit's earnings are

likely to remain volatile as the company looks to establish a positive actuarial margin, which might result in elevated amortization costs. This issue reflect to the impact of the low interest rates that lasted for a long period. In addition, due to the sales of variable universal life insurance that are likely to slip if the equity markets enter a period of more normal gains. However, in the longer term this unit's sales should benefit relative to the competitors from the company's advisor force of 4600. Its 2015 entry in the employee benefits market is also expected to boost AXA's business overtime. VUL accounted for almost 49% if the firm's life insurance premium in the past year 2017.

| Name   | 2018 | 2017 | 2016  | 2015 | 2014 |
|--|------|------|-------|------|------|
| <b>LIMRA SRI Individual Life Sales (%)</b>   |      |      |       |      |      |
| ▼ % Annualized Growth in Ind. Life Premiums  |      |      |       |      |      |
| Universal Life   |      | 1.0  | 0.0   | 7.0  |      |
| Variable Life  |      | 2.0  | -11.0 | -3.0 |      |
| Term Life  |      | 2.0  | 1.0   | 2.0  |      |
| Whole Life   |      | 0.0  | 9.0   | 9.0  |      |
| Total Industry   |      | 1.0  | 3.0   | 6.0  |      |
| ▶ % Growth in Ind. Life Face Amount  |      |      |       |      |      |
| ▶ % Growth in Ind. Life Policy Count   |      |      |       |      |      |
| ▼ % Ann. YTD Growth in Ind. Life Premiums  |      |      |       |      |      |
| Universal Life   |      | 1.0  | 0.0   | 7.0  |      |
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| ▶ % Ann. YTD Growth in Ind. Policy Count   |      |      |       |      |      |
| Annualized premium reflects planned recu...<br>of single premium. Planned recurring is th...<br>holders plan on paying each year: single i |      |      |       |      |      |

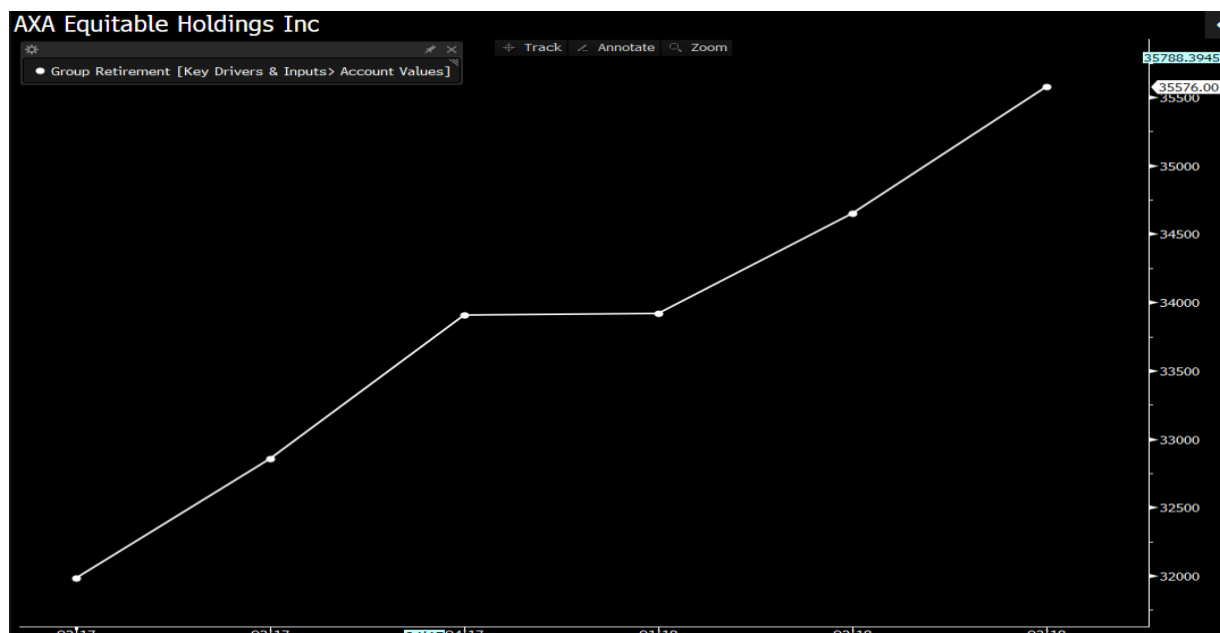


## AXA Equitable Unit performance:

Due to the strong margins and healthy flows, EQH is expected to have a solid profit from the company's group retirement unit in the near to medium term. Axa Equitable is the leader in the K-12 education market, which might represent about 2/3 of the unit's a \$35 billion in Asset Under Management (AUM). The

company has been able to capitalize on its specialized education sales force about 1000 advisors to drive this new business.

| View  | 6 Quarters                 | Growth     | None       | Currency   | LCL        |  |
|---|----------------------------|------------|------------|------------|------------|--|
| Company                                       | AXA Equitable Holdings Inc |            |            |            |            |  |
| Fiscal Period                                 |                            | Q3 2018    | Q2 2018    | Q1 2018    | Q4 2017    |  |
| 3 Months Ending                               |                            | 2018-09-30 | 2018-06-30 | 2018-03-31 | 2017-12-31 |  |
| In Millions (except Per Share or noted oth... |                            |            |            |            |            |  |
| ▼ Key Drivers & Inputs                        |                            |            |            |            |            |  |
| ▼ Assets Under Management (AUM in Billio...   |                            |            |            |            |            |  |
| AB Third Party AUM                            | ✓                          | 458.1      | 449.1      | 458.7      | 461.0      |  |
| Total AB AUM                                  | ✓                          | 550.4      | 539.8      | 549.5      | 554.0      |  |
| Total AXA AUM                                 | ✓                          | 667.8      | 655.8      | 665.5      | 672.0      |  |
| Total Number of AXA Advisors                  | ✓                          | 4,544.0    | 4,576.0    | 4,584.0    | 4,668.0    |  |
| ▼ Account Values                              |                            |            |            |            |            |  |
| Individual Retirement                         | ✓                          | 105,745.0  | 103,114.0  | 101,790.0  | 103,423.0  |  |
| Group Retirement                              | ✓                          | 35,576.0   | 34,649.0   | 33,918.0   | 33,906.0   |  |
| AB Adjusted Operating Margin (%)              | ✓                          | 29.7       | 27.3       | 30.1       | 35.0       |  |
| Life Insurance Benefit Ratio (%)              | ✓                          | 81.5       | 68.2       | 65.2       | -26.0      |  |



## Q3'18 Earnings Performance and Guidance:

In Q3, AXA Equitable beat quarterly non-GAAP earnings (diluted) by 32 cents, up to \$1.23 per share, but GAAP EPS of (\$0.89), which is a miss by \$1.44. EQH reported revenues of \$1.08B for the quarter 3, which is a miss by \$2.12B, and a Net Loss of \$496M

However, we can see the Book value per share falling by \$1.77 to \$22.15, compared to \$23.92 in December 2017 (including Other Comprehensive Income and Losses of (\$2.85) per share)

The key highlights of their Q3 2018 revenues were:

Individual retirement \$434M vs \$326M LY (+18% vs Q3'17)

Group retirement \$134M vs \$85M

Investment management and research \$96 vs \$45

Protection solutions \$137 vs (\$3)

Total AUM (Assets Under Management) of \$667.8B at sept 30, vs \$672.2B in December 2017 and \$651B in Q3'17

During the third quarter, EQH returned a total of \$130M to shareholders including \$73M in dividends, and \$57M part of the share repurchase program, and the initial \$500 million share repurchase authorization was raised to \$800M by the Board of Directors.

| In Millions of USD except Per Share |  | 2014 Y     | 2015 Y     | 2016 Y     | 2017 Y     |
|-------------------------------------|--|------------|------------|------------|------------|
| 12 Months Ending                    |  | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
| <b>Returns</b>                      |  |            |            |            |            |
| Return on Common Equity             |  | —          | —          | 11.42      | 6.55       |
| Return on Assets                    |  | —          | —          | 0.60       | 0.38       |
| Return on Invested Capital          |  | —          | —          | 6.15       | 8.47       |
| <b>Margins</b>                      |  |            |            |            |            |
| Operating Margin                    |  | 18.18      | 4.35       | 17.23      | 10.50      |
| Incremental Operating Margin        |  | —          | -64.76     | 90.82      | —          |
| Pretax Margin                       |  | 18.18      | 4.35       | 17.23      | 10.50      |
| Income before XO Margin             |  | 14.66      | 2.21       | 13.98      | 10.17      |
| Net Income Margin                   |  | 12.23      | 6.49       | 10.67      | 6.79       |
| Net Income to Common Margin         |  | 12.23      | 6.49       | 10.67      | 6.79       |
| <b>Additional</b>                   |  |            |            |            |            |
| Effective Tax Rate                  |  | 19.39      | 49.21      | 18.84      | 3.12       |
| Dvd Payout Ratio                    |  | 0.00       | 0.00       | 0.00       | 0.00       |
| Sustainable Growth Rate             |  | —          | —          | 11.42      | 6.55       |

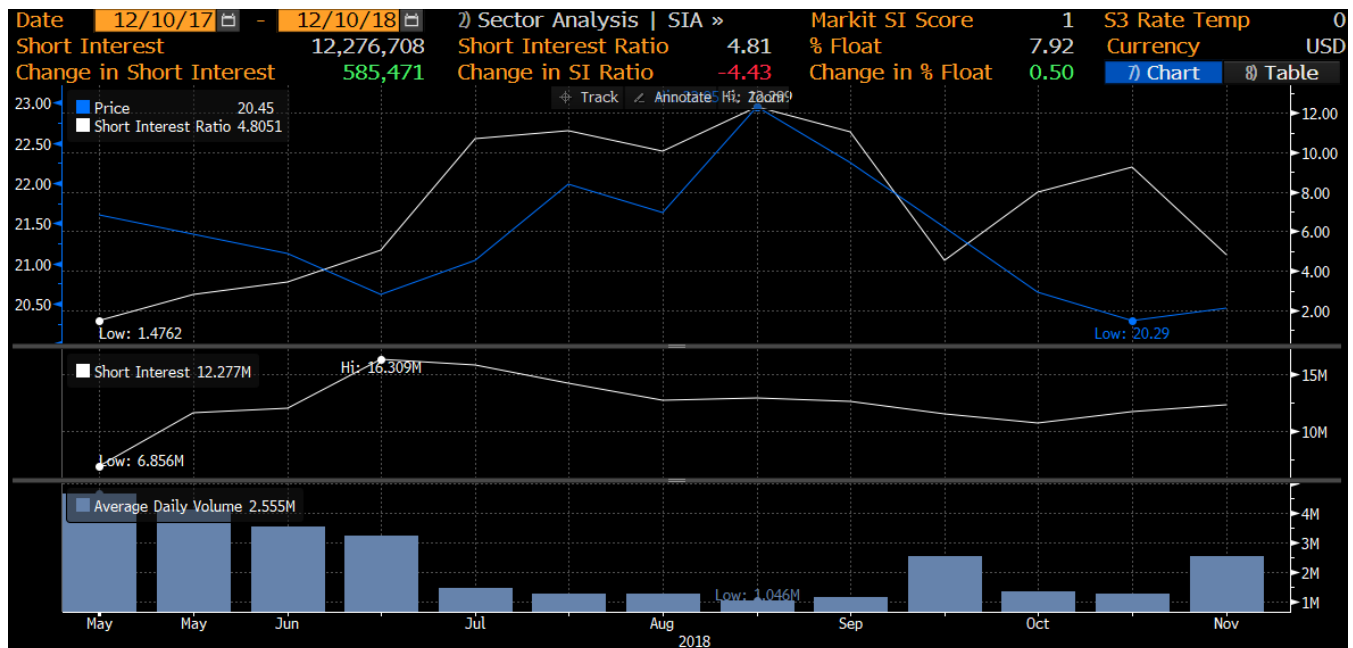
| In Millions of USD except Per Share |  | 2015 Y     | 2016 Y     | 2017 Y     |
|-------------------------------------|--|------------|------------|------------|
| 12 Months Ending                    |  | 12/31/2015 | 12/31/2016 | 12/31/2017 |
| <b>1 Year Growth</b>                |  |            |            |            |
| Revenue                             |  | -22.90     | 17.50      | 4.97       |
| Operating Income                    |  | -81.57     | 365.76     | -36.03     |
| Net Income to Common                |  | -59.11     | 93.31      | -33.18     |
| EPS Diluted                         |  | -79.59     | 287.29     | -33.18     |
| EPS Diluted before XO               |  | -79.59     | 287.29     | -33.18     |
| EPS Diluted before Abnormal         |  | -26.63     | 45.00      | -25.07     |
| <b>Total Assets</b>                 |  | —          | 5.41       | 8.79       |
| Total Debt                          |  | —          | -10.13     | 50.03      |
| Total Equity                        |  | —          | 10.77      | 14.72      |
| Capital                             |  | —          | 8.33       | 18.13      |
| <b>Cash From Operations</b>         |  | 69.43      | -22.92     | —          |
| Capital Expenditures                |  | 326.13     | -48.00     | -34.52     |
| Net Change In Cash                  |  | -69.59     | —          | 6.98       |
| Free Cash Flow                      |  | -210.65    | 45.96      | 67.07      |

## Ownership:

Institution own 78.79% of AXA's float. Investment advisors hold the biggest portion of the total float. However, they have been going off from their positions as the rate have decreased by -8.03% this year in comparison to last year. Hedge fund come in the second place holding 4.59%, followed by pension fund that have 2.95% in their position.

| Compare Current Stats Against 05/06/18   |          |        |            | Insider - Based on Last 6 Months |          |       |        |
|--|----------|--------|------------|----------------------------------|----------|-------|--------|
| Institutional - Based on Current Filings |          |        |            | 52) Insider                      |          |       |        |
|  | 05/06/18 | Curr   | Change     |                                  | 05/06/18 | Curr  | Change |
| 11) % of Shares Held                     | 23.13    | 91.18  | +68.05%    | 21) % of Shares Held             | 0        | 0.07  | +0.07% |
| 12) % of Float Held                      | 0        | 78.49  | +78.49%    | 22) % Chg Insider Positions      | NaN      | +2.49 | NaN%   |
| 13) # of Institutions                    | 1        | 211    | +21000.00% | 23) # of Insiders                | 0        | 11    |        |
| 14) # of Buyers                          | 0        | 73     |            | 24) # of Buyers Opn Mkt          | 0        | 0     |        |
| 15) # of Sellers                         | 0        | 46     |            | 25) # of Sellers Opn Mkt         | 0        | 0     |        |
| 16) # of New Buyers                      | 1        | 70     | +6900.00%  | 26) # of Shrs Bought Opn Mkt     | 0        | 0     |        |
| 17) # of Selloffs                        | 0        | 20     |            | 27) # of Shrs Sold Opn Mkt       | 0        | 0     |        |
| 18) % Chg in Inst Positions              | Inf      | -16.09 | -Inf%      | 28) Avg Opn Mkt Buy Price        | 0        | 0     | 0.00%  |
|  |          |        |            | 29) Avg Opn Mkt Sell Price       | 0        | 0     | 0.00%  |
| Top Geographic Ownership (%)             |          |        |            | Top Ownership Type (%)           |          |       |        |
| 53) Geographic                           | 05/06/18 | Curr   | Change     | 54) Ownership Type               | 05/06/18 | Curr  | Change |
| 31) FRANCE                               | 100      | 65.02  | -34.98%    | 41) Investment Advisor           | 100      | 91.97 | -8.03% |
| 32) UNITED STATES                        | --       | 30.97  | --         | 42) Hedge Fund Manager           | --       | 4.59  | --     |
| 33) CANADA                               | --       | 2.9    | --         | 43) Pension Fund                 | --       | 2.95  | --     |
| 34) GERMANY                              | --       | 0.42   | --         | 44) Bank                         | --       | 0.29  | --     |
| 35) UNITED KINGDOM                       | --       | 0.38   | --         | 45) Individual                   | --       | 0.07  | --     |
| 36) Unknown                              | --       | 0.08   | --         | 46) Insurance Company            | --       | 0.07  | --     |
| 37) LUXEMBOURG                           | --       | 0.07   | --         | 47) Holding Company              | --       | 0.04  | --     |
| 38) NETHERLANDS                          | --       | 0.05   | --         | 48) Brokerage                    | --       | 0.02  | --     |
| 39) MALTA                                | --       | 0.05   | --         | 49) Corporation                  | --       | 0     | --     |

## Short interests:



**Conclusion:**

If we apply a valuation based on the price to book multiple (of 0.78x), we come-up with an intrinsic value of \$20.15 per share, which is 16% higher than the closing price. It looks like the stock has been under-appreciated. The current trading price would imply a total Equity of \$12,422M, the actual Equity being over \$14B. This valuation being really conservative, it leaves lots of room for the value added by AB, and the expansion of the retirement plan for the long-term.

