

STRONG BUY

AIG US

Current Price: \$55.33

Target Price: \$62.4

American International Group Inc. (AIG)

MARKET DATA

Price (closing 12/05/14)	\$55.3
Diluted shares (in M)	1,399.9
Market cap (\$ in M)	77,457.2
Net Debt (\$ in M)	34,290.0
EV (\$ in mn)	111,747.2
Exchange	NYSE
Industry	Insurance
ISIN	US0168717849
Bloomberg	AIGUS
Reuters	AIG.N

American International Group, Inc. (AIG), incorporated on June 9, 1967, is a world's largest insurance organization. The Company provides a range of property casualty insurance, life insurance, retirement products, mortgage insurance and other financial services to customers in more than 130 countries. Its diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. It earns revenues primarily from insurance premiums, policy fees from universal life insurance and investment products and income from investments. In May 2014, the Company completed the acquisition of American International Lease Finance Corporation (ILFC) to AerCap.

The Company agreed to acquire Ageas Protect Limited from Ageas Group NV.

INVESTMENT RATIONALE

• **Strategic move to stimulate profitable growth**
 AIG's consistent efforts to realign its core assets including the recent divestment of last year's non-core assets including the U.K. business, along with cost cutting and management act as potential earnings catalysts. The recent Ageas Protect Ltd. acquisition is likely to reinforce the U.K. business.

• **Improved financial leverage and better coverage ratios**
 Long term debt obligations from \$106.4 bn in FY10 to \$78.6 bn in FY14. Improved financial leverage and better coverage ratios. Its coverage ratio rose from 4.2x in FY11 to 7.4x during 3Q14. The Company's purchase of lower coupon debt to replace its higher coupon debt by early 2015 is expected to continue to deliver operating leverage. Narrow Balance Sheet and record shareholders' equity indicates AIG's improving financial strength.

• **Attractive valuation – AIG stock presently trading at discount to its book value**
 AIG stock presently trades at 0.75x its tangible book value/sh of \$69.3 which fully discounts its RoE of 8% compared with its peer group average RoE of ~12%. The Company reinstituted its dividend payment after five years in 2013 and intends to repurchase additional shares worth \$1.5 bn after undertaking ~\$3.4 bn share buyback in FY14 till date. Improving operating cash flows and liquidity position provides visibility to provide consistent future returns to its shareholders through dividends and buyback program.

HURDLES

- Exposure to natural and man-made catastrophe risks, interest rate and regulatory risks
- Modest unfavorable reserve development continue to impede underwriting results
- Large underwriting losses and/or rise in financial leverage may trigger rating downgrade

ANALYST NOTE

AIG exit from government ownership, financial turnaround and strategic transformation is set to improve its competitive advantage. The Company is on track to achieve its long-term goal of 10% ROE for FY15 and achieve average annual percentage growth of its EPS in the mid-teens through FY15 driven by earning potentials from its P&C and life-retirement segments and disciplined claims and expense management. We are attracted to its valuation, recent management changes and strong asset class, expect the stock to trade at a price of \$62.4 in 18 months, based on expected average P/E and P/B multiples.

\$ in M	2013	2014e	2015e	2016e
SALES	64,258	64,901	65,809	67,191
%growth	3.4%	1.0%	1.4%	2.1%
Adj. EBITDA	16,559	17,463	17,052	17,374
%margin	25.8%	26.9%	25.9%	25.9%
Adj. PAT	9,221	10,037	9,690	10,064
%margin	14.3%	15.5%	14.7%	15.0%

	2013	2014e	2015e	2016e
EV/Sales	1.8	1.7	1.6	1.5
EV/A.EBITDA	6.9	6.3	6.3	6.3
Forward P/B	6.7	78.6	85	85

SHAREHOLDINGS

Top 10 Institutions

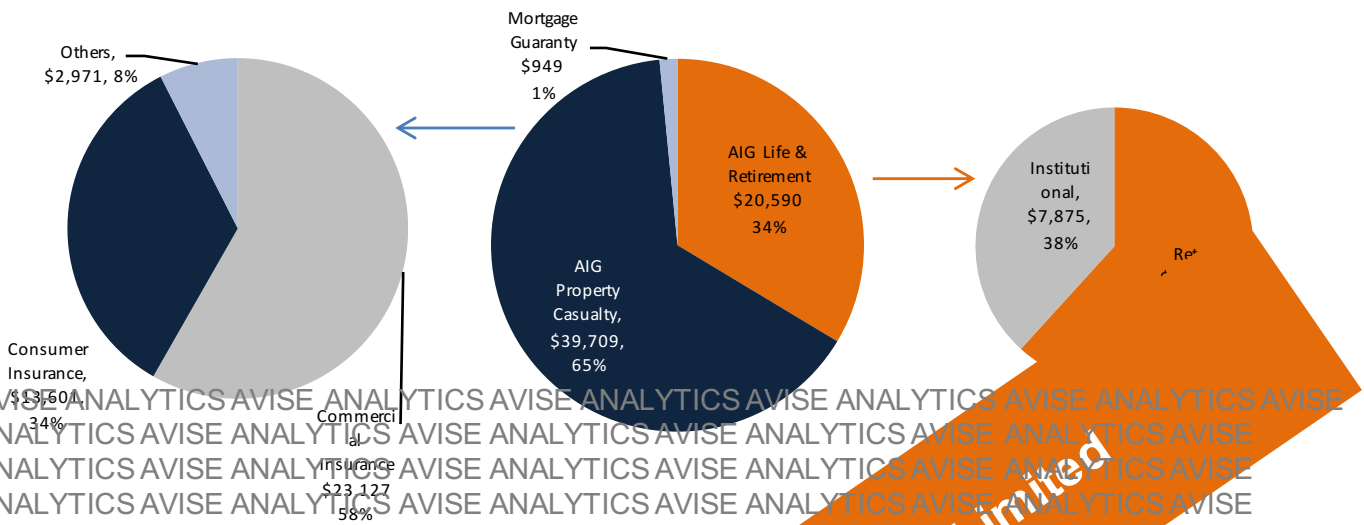
The Vanguard Group	11.4
SSgA Fund Management	7.7
Fairholme Capital	3.6
BlackRock	3.6
Harris Associates	2.6
Capital Research & Management	2.3
Wellington Management	2.2
Waddell & Rayner Investment Mgmt Co.	1.3
Hotchkis & Wile	1.3
Northern Trust Investments, Inc.	1.2
Total	28.0

REPORT CARD

Management	A
Financials	A
Catalysts	A
Valuation	A

Sample Report by Avise Analytics P Limited

Revenue model of AIG



AIG Property Casualty (65%)

Based on net premiums written in 2012, AIG Property Casualty is a leading insurer in the U.S. and Canada. We are the largest U.S.-based property casualty insurer in Europe, and a leading property casualty insurer in China. In addition, AIG Property Casualty was first to market in many developing markets. To enhance its businesses in countries such as Brazil, China through strategic relationships with PICC Life and India with the Tata Group.

- **Casualty:** Includes general liability, workers' compensation, excess casualty and crisis management insurance. Casualty also includes other customized structured programs for large corporate customers and multinational organizations.
- **Property:** Includes individual property insurance products, which cover exposures to man-made and natural disasters.
- **Specialty:** Includes political risk, trade credit, surety and marine insurance, and various product offerings for other risks.
- **Financial:** Includes professional liability insurance, including directors and officers (D&O), fidelity, employment practices, kidnap and ransom, and errors and omissions insurance (E&O).
- **Life and Retirement:** Includes voluntary and sponsor-paid personal accidental and supplemental health products for individuals, and other organizations. It also includes life products (outside of the U.S. market) as well as a broad range of products and services for leisure and business travelers.
- **Personal:** Includes automobile, homeowners and extended warranty insurance. It also includes insurance for high-net-worth individuals (covered through Private Client Group), including umbrella, yacht and fine art insurance, and consumer specialty products such as identity theft and credit card protection.

AIG Life & Retirement (34%)

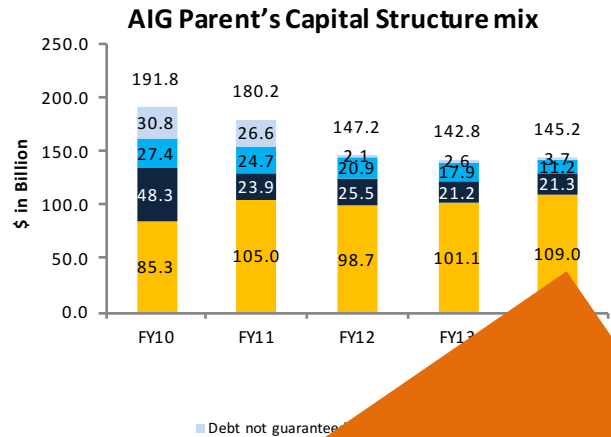
AIG Life and Retirement's organizational structure includes distinct product divisions, shared annuity and life operations platforms and a unified multi-channel distribution organization with access to all AIG life and Retirement products. AIG Life and Retirement's operating segments are organized into *Retail (69%)* and *Institutional (31%)*. *Retail* products are generally marketed directly to individual consumers through independent and career insurance agents, retail banks, direct-to-consumer platforms, and national, regional and independent broker-dealers. *Institutional* products are generally marketed to groups or large institutions through affiliated financial advisors or intermediaries including benefit consultants, independent marketing organizations, structured settlement brokers and broker-dealers.

Other Operations (1%) - Other Operations includes:

- **Mortgage Guaranty (United Guaranty Corporation or UGC), Global Capital Markets (GCM), Direct Investment book (DIB), Retained Interests, Corporate & Other, Aircraft Leasing**

Bond Analysis

AIG is gradually improving its overall profitability driven by selling off non-core assets, growing focus towards core business developments, offering expanded and more balanced product at AIG Life & Retirement segment, cutting credit losses at Mortgage Guaranty, and lowering financial leverage. Its financial leverage (debt/equity ratio) at the parent improved from 1.25x in FY10 to 0.41x in FY13 and further to 0.33x at the end of September 30, 2014. Backed by continuous improvement in its capital position and debt servicing abilities, AIG is demonstrating improving credit profile. It has successfully brought down its total debt from the levels of \$106.5 bn in FY10 to \$41.7 bn at the end of FY13 and further to \$36.2 bn at the end of 9M14.



AIG issued debt totaling \$2.25 bn during FY14 year to date, which includes \$777 million of 4.500% Notes due 2044 issued in Oct 15. The Company reduced its total debt by \$1.04 bn (FY13: \$9.35 bn) through debt repayments and redemptions of \$10.4 bn (FY13: \$9.35 bn) and further reduced DIB debt during Oct 14 through redemption of \$2.0 bn of its 8.25% Notes due 2018.

During Feb 14, Fitch Ratings upgraded AIG's Issuer Default Rating to 'BBB+'. The ratings on AIG's senior debt obligations were upgraded to 'BBB+'. AIG's financial commitment (TFC) ratio improved, to 1.1x at the end of FY13 from 2.1x at the end of FY12. AIG's aircraft leasing subsidiary International Lease Finance Corporation (ILFC) to AerCrew Services Inc. AIG is expected to reduce TFC to a pro forma level of ~0.7x. In Aug 14, Fitch affirmed the rating of its operating subsidiaries with a 'Stable Outlook'. Its latest issuance of \$750 mn 4.500% Notes due 2044 issued during Oct 14 was assigned 'BBB+' by Fitch Ratings agency. The Company is demonstrating improving and more consistent earnings within its Property/Casualty and Life Insurance segments which explains its average earnings-based interest coverage exceeding 1.5x.



Parent's improving Credit Risk profile

	FY11	FY12	FY13	As on Sept 30, 2014
Debt/Equity	0.14	0.09	0.08	0.07
Debt/Total	0.72	0.49	0.41	0.33
Operating cash flows/Total Debt	4.45	6.40	7.73	7.40
Operating cash flows/Total Debt	0.00	0.08	0.09	0.12

For twelve months ending on Sep 15, the Company has debt repayment liabilities totaling \$5.4 bn. This compares with AIG Parent's strong liquidity position that includes \$12.6 bn of cash & short-term investments and unencumbered fixed maturity securities at the end of 9M14 and \$4.5 bn of available capacity from credit facilities.

AIG Parent's Debt Repayment Schedule

Period (Year)	2015 - 2020	2021 - 2030	2031 - 2040	2041 - 2050	2051 - 2060	2061 - 2070	2071 - 2080	2081 - 2090
Debt Repayable Amount (\$ in B)	20.55	3.54	2.76	2.45	0.03	9.32	-	0.50

Balance Sheet

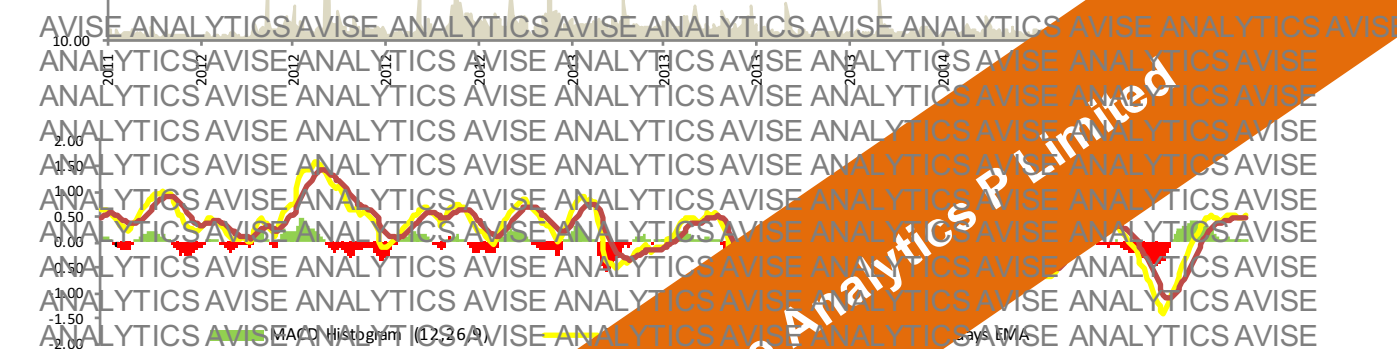
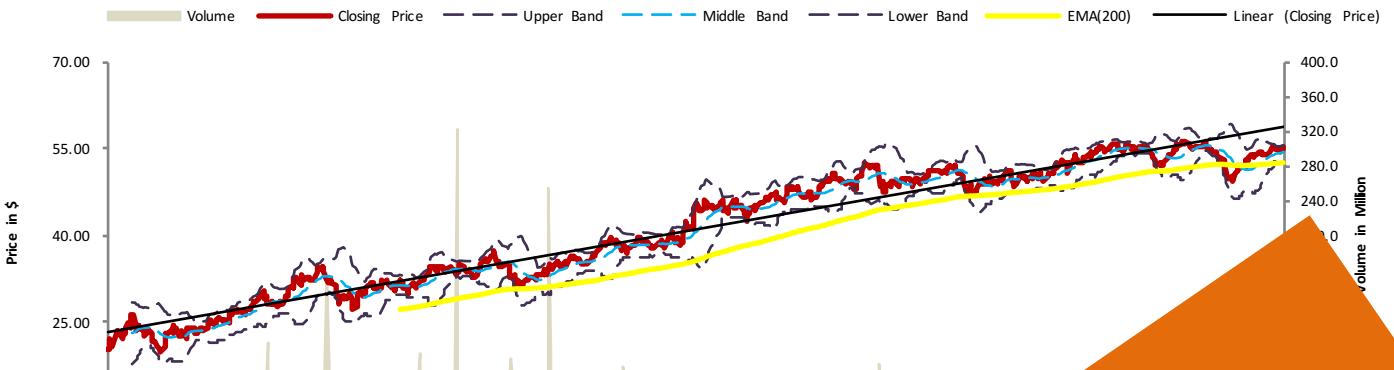
PARTICULARS (\$ in M)	FY11	FY12	FY13	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Assets											
Investments:											
Fixed Maturity Securities:											
Bonds available for sale, at fair value	263,981.0	269,959.0	258,274.0	258,085.4	265,459.9	269,182.4	274,938.0	278,954.8	282,361.7	285,623.2	289,063.6
Other bond securities, at fair value	24,364.0	24,584.0	22,623.0	22,849.2	23,728.8	24,002.0	24,516.9	24,869.0	25,182.2	25,469.0	25,775.9
Equity Securities:											
Common and pref stk available for sale, (FV)	3,624.0	3,212.0	3,656.0	3,852.0	3,706.8	3,832.0	3,914.7	3,978.3	4,020.6	4,064.1	4,117.4
Oth common and pref stk, at fair value	125.0	662.0	834.0	1,144.6	865.0	950.1	991.5	1,003.0	1,002.8	1,020.0	1,033.3
Mortgage & oth. loans receiv, net of allowc	19,489.0	19,482.0	20,765.0	20,701.3	20,747.8	21,213.5	21,788.0	22,035.0	22,291.6	22,548.2	22,804.8
Flight equip primarily under operating leases,	35,539.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other invested assets, at fair value	40,744.0	29,117.0	28,659.0	28,010.8	29,036.5	29,493.0	30,165.9	30,542.0			
Short-term investments, at fair value	22,572.0	28,808.0	21,617.0	21,966.8	22,057.8	22,589.8	23,120.8	23,111.0	23,111.0	23,111.0	23,111.0
Total Investments	410,438.0	375,824.0	356,428.0	356,610.0	365,602.7	371,262.8	379,435.8	383,513.1	387,954.3	392,400.2	396,846.1
Cash and cash equivalents	1,474.0	1,151.0	2,241.0	3,152.3	2,534.0	2,610.6	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0
Restricted cash	2,988.0	1,878.0	865.0	873.7	885.9	904.0	904.0	904.0	904.0	904.0	904.0
Accrued investment income	3,108.0	3,054.0	2,905.0	2,906.5	2,979.8						
Premiums and other receivables, net of allowance	14,721.0	13,989.0	12,939.0	13,068.4	13,270.0	13,400.0	13,530.0	13,660.0	13,790.0	13,920.0	14,050.0
Reinsurance assets, net of allowance	20,211.0	25,995.0	25,829.0	23,829.0	23,829.0	23,829.0	23,829.0	23,829.0	23,829.0	23,829.0	23,829.0
Deferred income taxes	18,615.0	17,266.0	21,925.0	21,925.0	21,925.0	21,925.0	21,925.0	21,925.0	21,925.0	21,925.0	21,925.0
Deferred policy acquisition costs	8,937.0	8,282.0	9,436.0				12,899.3	10,013.3	10,141.0	10,268.7	10,396.4
Derivative assets, at fair value	4,499.0	3,871.0					5,845.4	1,862.3	1,917.2	1,972.1	2,027.0
Other Assets, at fair value	8,675.0	8,357.0					9,028.4	9,147.8	9,267.1	9,386.4	9,505.7
Separate account assets, at fair value	151,388.0						78,057.1	75,159.3	72,261.5	69,363.7	66,465.9
Assets held for sale					27,853.3	25,942.1	25,235.3	25,068.8	25,320.8	25,941.5	27,570.0
Total Assets	553,054.0	548,633.0	541,329.0	543,122.7	550,757.4	558,169.6	568,828.2	576,791.7	583,467.5	590,787.5	598,971.9
Liabilities and Shareholders' (Deficit) Equity											
Liabilities:											
Liability for unpaid claims and expenses			21,547.0	77,241.6	78,581.9	79,426.1	81,562.7	80,939.4	78,997.4	77,376.3	76,280.6
Unearned Premiums			21,953.0	20,931.6	21,240.8	21,676.0	22,137.6	22,296.0	22,499.7	22,718.0	22,928.8
Future policy benefits		40,523.0	40,653.0	40,991.7	41,519.9	42,283.4	43,344.0	43,892.4	44,412.5	44,945.0	45,488.2
Policyholders' loans	128,018.0	122,980.0	122,016.0	121,316.0	120,616.0	119,916.0	119,216.0	118,516.0	117,816.0	117,116.0	116,416.0
Other liabilities	6,631.0	6,267.0	5,085.0	4,783.0	4,483.0	4,183.0	3,883.0	3,583.0	3,283.0	2,983.0	2,683.0
Deferred taxes	4,033.0	4,051.0	2,511.0	2,429.0	2,586.5	2,899.2	2,788.0	2,899.1	2,791.3	2,902.5	2,954.2
Other liabilities	28,248.0	32,068.0	29,157.0	30,195.7	31,549.7	31,996.9	31,871.8	32,477.4	32,756.5	33,035.7	33,447.6
Long-term debt	13,253.0	13,500.0	14,693.0	13,693.0	13,693.0	13,693.0	13,693.0	13,693.0	13,693.0	13,693.0	13,693.0
Separate account liabilities	51,838.0	52,370.0	41,059.0	42,282.5	42,488.4	42,588.0	42,037.5	41,933.4	40,739.5	40,965.5	41,191.5
Liabilities held for sale	0.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0	24,548.0
Total Liabilities	442,338.0	449,630.0	440,218.0	432,441.6	432,247.2	431,610.8	434,076.2	431,432.6	427,831.1	424,325.1	421,406.5
Redeemable noncontrolling interests	8,523.0	8,340.0	8,070.0	8,788.0	8,593.0	8,398.0	8,115.0	7,911.0	7,707.0	7,503.0	7,299.0
Shareholders' Equity											
Common stock, \$2.50 par value	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0	4,766.0
Treasury stock, at cost	(9,420.0)	(13,824.0)	(14,520.0)	(15,520.0)	(15,020.0)	(14,520.0)	(14,020.0)	(13,520.0)	(13,020.0)	(12,520.0)	(12,020.0)
Additional paid-in capital	80,459.0	80,410.0	80,899.0	80,899.0	80,899.0	80,899.0	80,899.0	80,899.0	80,899.0	80,899.0	80,899.0
Retained (Deficit) Earnings	10,274.0	13,176.0	21,965.0	32,557.3	31,798.8	31,990.0	31,074.0	31,373.3	31,933.3	32,758.5	33,852.7
Accumulated other comprehensive income	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0	6,360.0
Total Shareholders' (Deficit) Equity	101,536.0	98,003.0	101,111.0	110,681.1	117,803.9	125,895.2	134,076.2	144,378.3	155,490.8	166,374.9	177,468.7
Non Non-redeemable noncontrolling interests	855.0	667.0	611.0	611.0	611.0	611.0	611.0	611.0	611.0	611.0	611.0
Total Equity	102,391.0	98,670.0	101,722.0	111,292.1	118,414.9	126,506.2	134,687.2	145,009.3	156,101.8	167,015.9	178,079.7
Total liabilities and shareholders' equity	553,054.0	548,633.0	541,329.0	543,122.7	550,757.4	558,169.6	568,828.2	576,791.7	583,467.5	590,787.5	598,971.9

Peer Company Comparison

PARTICULARS	Rank	American International Group Inc	Travelers Companies Inc	Berkshire Hathaway Inc	Chubb Corp	Hartford Financial Services Group Inc	ACE Ltd.	Allstate Corp	Progressive Corp	American Financial Group Inc	HCC Insurance Holdings Inc
Currency		USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Reuter Ticker Symbol		AIG.N	TRV.N	BRKa.N	CB.N	HGH.N	ACE.N	ALL.N	PGR.N	AFG.N	HCC.N
Share Price (12/05/2014)		55.3	105.2	225640.0	103.8	30.0	116.1	68.7	27.3	61.5	16
%shareholdings by top 10 Institutional shareholders	8	28.0%	33.1%	12.2%	33.9%	34.6%	44.4%	27.5%	40.3%		
KEY INFORMATION											
Revenue (B in USD) (TTM)	2	69.7	27.1	193.5	14.1	20.0	19.6	35.5			
Net income (B in USD) (TTM)	2	9.0	3.6	20.7	2.1	1.4	3.3	2			
Market cap (B in USD)	2	77.2	34.8	369.9	24.4	17.8	38.5				
VALUATION RATIOS (x)											
Price/Earnings (TTM)	1	9.0	10.2	17.9	12.1	14.4					11.6
Price/Book Value (MRQ)	1	0.7	1.4	1.6	1.5	1.7					1.4
Price/Cash flow (TTM)	1	5.8	7.0	13.6	11.5						10.8
Price/Sales (TTM)	5	1.1	1.3	1.9	1.5						2.0
Beta	3	1.8	1.5	1.4	1.1						0.6
EFFICIENCY (x)											
Asset Turnover (TTM)	8	0.1	0.3	0.0							0.2
MANAGEMENT EFFECTIVENESS (%)											
Return on Assets (TTM)	8	1.7%					3.4%	2.5%	4.8%	1.0%	4.3%
PROFITABILITY (%)											
EBITD margin (TTM)	5					20.3%	36.0%	26.8%	18.5%	18.9%	37.9%
EBITD Margin 5-Year Average	2				39.0%	18.1%	36.8%	23.4%	19.5%	24.2%	33.9%
Operating margin (TTM)					20.5%	10.3%	19.9%	11.9%	10.1%	13.5%	26.0%
Operating Margin 5-Year Average					22.2%	19.8%	2.1%	20.0%	5.9%	10.3%	21.6%
Net profit margin (TTM)				10.9%	15.0%	6.8%	16.9%	8.0%	6.4%	8.0%	17.6%
Net Profit Margin 5-Year Average				8.5%	9.1%	14.7%	1.3%	15.9%	4.2%	6.5%	14.5%
FINANCIAL											
Interest			22.3	11.3		13.2	42.7	22.5	26.3	10.5	53.0
LT Debt		10.3	0.3	0.3	0.2	0.3	0.1	0.2	0.3	0.2	0.2
Total Debt		10.3	0.3	0.3	0.2	0.3	0.2	0.2	0.3	0.2	0.2
Total Debt to Cap	10	10.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
GROWTH											
Revenue (TTM) % Change 1 Yr Ago	9	4.2%	1.8%	7.6%	2.2%	(24.8%)	7.2%	3.5%	6.1%	2.7%	0.4%
Net Income (TTM) % change	1	161.9%	4.7%	31.4%	5.4%		38.9%	(1.9%)		(3.5%)	4.2%
Capital Expenditure 5-Year Growth rate				12.6%	2.9%		(5.5%)		14%	1.4%	-
Dividends (%)											
Dividend yield	9	0.9%	2.1%	-	1.9%	1.7%	2.2%	1.6%	1.8%	1.6%	2.2%
Dividend 5-Year Growth rate	8	(32.6%)	10.3%		5.9%	(23.5%)	12.9%	(9.4%)		29.3%	8.9%
Payout Ratio 5-Year Average	9	1.5%	24.3%		23.1%	85.2%	19.9%	30.3%	56.5%	19.3%	19.2%
RANK	6										

Sample Report by Avise Analytics P Limited

Technical Analysis



MOVING AVERAGES

EMA(20)	EMA(50)	EMA(200)	Summary
54.44	53.86	52.70	BUY

MOMENTUM OSCILLATORS

RSI (14)	Stoch %R (14)	MACD (12,26,9)	Summary
70.03	-24.43	0.51	BUY

SHORT TERM VOLATILITY

Summary	VOLUME ANALYSIS
Less Volatile	Current (12/05/2014) 6,499,700
	14-days Average 6,595,121
	30-days Average 7,352,910

SHORT TERM PIVOT TABLE

	S1	S2	Pivot Point	R1	R2
Classic	52.74	54.04	54.95	56.25	57.16
Fibonacci Levels	53.59	54.11	54.95	55.80	56.32

Sample Report by Avise Analytics P Limited