



Franklin Resources (BEN)

Updated July 10th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$32	5 Year CAGR Estimate: 13.3%	Volatility Percentile: 66.6%
Fair Value Price: \$46	5 Year Growth Estimate: 3.8%	Momentum Percentile: 6.3%
% Fair Value: 70%	5 Year Valuation Multiple Estimate: 6.6%	Valuation Percentile: 94.8%
Dividend Yield: 2.9%	5 Year Price Target: \$54	Total Return Percentile: 87.6%

Overview & Current Events

Franklin Resources is an asset manager with a long and successful history. The company, which is headquartered in San Mateo, CA, was founded in 1947 and is currently valued at \$17 billion.

Franklin Resources earned \$0.78 per share during the first quarter of 2018, an increase of 5% year over year. This was possible thanks to revenues increasing by 1.3% to \$1.62 billion, with tax rate changes having a positive impact as well. Franklin Resources' AUM (assets under management) grew 3% year over year.

Franklin Resources' AUM increase over the last year was not based on positive net flows, though. The increase was based on the capital appreciation of the investments the company holds. Net flows were negative by \$10 billion during Q1, which is something investors should keep an eye on. During a rougher market environment, when share prices decline, these net outflows could severely hurt Franklin Resources' AUM and thus also its revenues.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.24	\$1.30	\$2.12	\$2.89	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.40	\$4.10
DPS	\$0.27	\$0.28	\$0.29	\$0.33	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.92	\$1.20

Overall Franklin Resources grew its earnings per share by 4.3% annually over the last decade, which isn't a very high growth rate. Profits fluctuated wildly, though, with EPS peaking in 2014. The dividend was increased steadily, partially due to an increase in the company's dividend payout ratio (which is still quite low at below 30%).

The biggest growth segment in the asset management industry are ETFs, which have much lower expense ratios (on average) than actively managed funds. Franklin's actively managed funds have been performing well over the last decade (76% of the company's funds beat their peer group average), but the performance over the last year wasn't very strong (just 13% of Franklin's funds outperformed their peer group). That rather weak performance over the last year, coupled with the rise of passive investing via ETFs, will be a headwind going forward, and likely is a reason for the net outflows Franklin Resources has been experiencing lately. If Franklin Resources' funds can get back to their past performance levels, net flows might get positive again, but for now AUM growth depends on asset appreciation.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.6	17.3	16.4	13.9	12.3	14.0	14.4	15.4	12.4	13.7	9.8	13.5
Avg. Yld.	0.8%	1.2%	0.8%	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	2.9%	2.5%

Franklin Resources never has been an expensive stock, but the valuation continued to decline over the last couple of years. Right now shares are trading at less than ten times earnings, which is the lowest valuation shares have traded at over the last decade. This means significant share price appreciation potential if the multiple gets closer towards the historic average. Franklin Resources' dividend yield has increased to the highest level ever due to ongoing dividend growth combined with share price weakness. This makes shares look somewhat attractive for income investors.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	44.6%	30.0%	33.4%	31.9%	29.7%	31.8%	32.9%	31.8%	27.4%	24.3%	24.0%	23.0%
Debt/A	22.8%	19.4%	27.9%	38.0%	37.6%	34.6%	29.2%	27.5%	25.8%	28.1%	28.0%	28.0%
Int. Cov.	-	-	580	101	1597	78	90	107	190	-	-	-
Payout	12.1%	21.5%	13.7%	11.4%	12.0%	11.6%	12.1%	17.3%	23.5%	25.9%	27.1%	29.3%
Std. Dev.	72.3%	54.2%	30.6%	39.3%	22.3%	22.6%	19.8%	21.9%	31.3%	16.9%	17.0%	21.0%

Franklin Resources generates a solid amount of gross profits relative to its asset base, although that ratio has been declining over the last decade. Debt levels relative to all assets are low, and interest coverage is extraordinary. Due to the fact that a significant amount of the assets Franklin Resources holds consist of cash (and equivalents), the company generates a meaningful amount of interest income. In some years, such as in 2017, that interest income is higher than the company's interest expenses, thus there is no net interest expense at all.

Like other financial corporations Franklin Resources' stock has been very volatile during the last financial crisis, even though the company was able to avoid any net losses (earnings declined by 40%, though). Relative to big banks Franklin Resources has been relatively recession resilient, but there are even less cyclical companies in other industries.

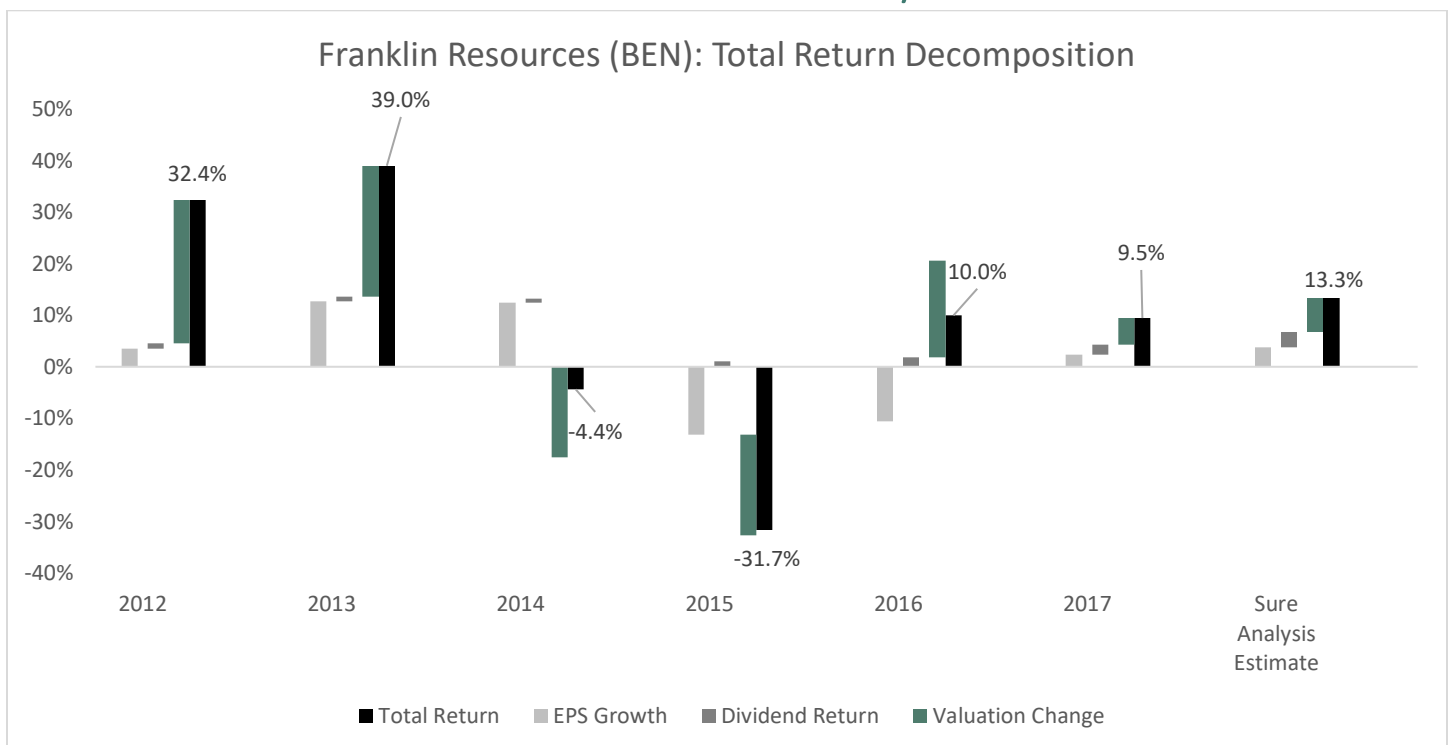
Franklin Resources funds performed well over a longer time frame, which is a competitive advantage, but over the last year the performance of Franklin's funds hasn't been great. Investors should keep an eye on that in order to see whether Franklin Resources is losing its edge versus other asset managers.

Final Thoughts & Recommendation

Franklin Resources offers a relatively high dividend yield, at the same time the dividend looks very safe and has a lot of growth potential due to the payout ratio being so low.

It looks like Franklin Resources' total returns, consisting of a combination of multiple expansion, dividends and a low earnings growth rate, will be attractive over the coming five years. We're recommending the company as a buy today.

Total Return Breakdown by Year



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