



Franklin Resources (BEN)

Updated April 12th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$32	5 Year CAGR Estimate: 14.1%	Quality Percentile: N/A
Fair Value Price: \$46	5 Year Growth Estimate: 3.8%	Momentum Percentile: N/A
% Fair Value: 70%	5 Year Valuation Multiple Estimate: 7.5%	Total Return Percentile: N/A
Dividend Yield: 2.8%	5 Year Price Target: \$55	Valuation Percentile: N/A

Overview & Current Events

Franklin Resources is an asset manager with a long and successful history. The company was founded in 1947 and is currently valued at \$18 billion.

Franklin Resources earned \$0.88 per share during the most recent quarter, based on revenues of \$1.6 billion (up four percent year over year). The revenue growth was achieved thanks to higher assets under management (AUM). AUM rose to \$753 billion during the most recent quarter, up 4% year-over-year.

Franklin Resources' AUM growth was primarily based on share price increases over the last year, net flows were negative. During the most recent quarter net flows were negative by \$2.3 billion. This trend hasn't been a problem as share price growth allowed for AUM to keep growing, but net outflows could become a hindrance for growth going forward.

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 were fluctuating widely 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 the growth outlook seems muted.

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	9.4	13.5
Avg. Yld.	0.8%	1.2%	0.8%	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	2.8%	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.

The low relative valuation leads to significant share price appreciation potential if the multiple gets closer to the historic average. The low share price has also made the dividend yield jump up significantly, right now Franklin shares are yielding significantly more than their historical average, or the broad market.

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' dividend yield hasn't been this high during the last decade. The dividend will continue to grow and is very safe due to a low dividend payout ratio. Earnings growth hasn't been strong in the last couple of years, but share price appreciation is still likely thanks to the low valuation that allows for multiple expansion down the road.

Franklin Resources looks like an investment that will provide attractive total returns thanks to its above-average dividend yield and low valuation, coupled with low-but-positive growth prospects.

Total Return Breakdown by Year

