T. Rowe Price Group (TROW)

Updated April 8th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$104	**5 Year CAGR Estimate:**	10.5%	**Quality Percentile:**	N/A
Fair Value Price:	$111	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	N/A
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.3%	**Total Return Percentile:**	N/A
Dividend Yield:	2.7%	**5 Year Price Target**	$156	**Valuation Percentile:**	N/A

Overview & Current Events

T. Rowe Price Group is one of the biggest publicly traded asset managers. The company has a market capitalization of $25 billion and assets under management of $990 billion (end of December).

In the most recent quarter (Q4 2017) T. Rowe earned $1.52, up massively from $1.21 in the prior year's quarter. That earnings growth was driven by higher revenues ($1.3 billion versus $1.1 billion in the prior year's quarter), higher margins, and a lower share count.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.82	$1.65	$2.53	$2.92	$3.36	$3.90	$4.55	$4.63	$4.84	$5.65	***$6.30***	***$8.65***
DPS	$0.96	$1.00	$1.08	$1.24	$1.36	$1.52	$1.76	$2.08	$2.16	$2.28	***$2.40***	***$3.28***

T. Rowe's earnings as well as its dividends have grown substantially over the last decade. During the last financial crisis T. Rowe's earnings declined slightly, but the company remained highly profitable.

Asset managers like T. Rowe have low variable costs, higher revenues (driven primarily by increasing assets under management) thus allow for margin expansion and attractive earnings growth rates. Most of T. Rowe's funds perform significantly better than other funds: More than 80% of T. Rowe's funds outperformed the respective Lipper average over the last three, five and ten years. This strong performance of T. Rowe's funds is a key selling point and should attract investors going forward. T. Rowe should therefore be able to get inflows from new investors, and the company will also benefit from rising share prices (as this leads to increasing assets under management as well).

The advance of ETFs (where other asset managers such as Blackrock are much better positioned) will lead to somewhat lower growth rates for T. Rowe Price Group going forward, but the company should still be able to increase its profits substantially through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	27.6	24.2	20.8	20.2	18.5	19.3	17.9	16.7	14.7	13.1	***16.5***	***18.0***
Avg. Yld.	2.4%	2.5%	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	***2.7%***	***2.6%***

T. Rowe has been valued with a PE ratio in the 20s up until 2012, when the valuation started to decline. In the last couple of months T. Rowe's share price rose substantially, which has led to an increasing PE ratio. Nevertheless T. Rowe is still valued at an inexpensive valuation relative to the broad market and relative to its historic multiples. It seems likely that T. Rowe's valuation will expand further over the coming years.

T. Rowe's dividend yield is on the high side of the historic average right now, although the dividend yield has been even higher when the company's share price was substantially lower in 2016. At roughly one and a half times the broad market's yield T. Rowe still has attractive income generation potential at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	71.3%	55.1%	60.7%	72.9%	66.7%	64.2%	65.4%	76.1%	62.9%	59.1%	***63.0%***	***65.0%***
Debt/A	11.7%	10.2%	9.5%	9.3%	8.6%	4.3%	4.4%	6.7%	19.6%	22.7%	***23.0%***	***24.0%***
Payout	52.7%	60.6%	42.7%	42.5%	40.5%	39.0%	38.7%	44.9%	44.6%	40.4%	***38.1%***	***37.9%***
Std. Dev.	76.4%	64.7%	31.3%	41.7%	21.2%	20.0%	17.5%	19.0%	22.5%	17.2%	***18.0%***	***21.0%***

T. Rowe operates an asset-light business, which shows in the high gross profit to asset ratio. Since T. Rowe does not need a huge amount of assets, the company doesn't need a lot of debt to finance its operations, either. The result is a low debt to asset ratio. Due to the fact that T. Rowe's cash balance is substantially bigger than its total liabilities, the company earns more interest income than it pays in interest expenses. This means T. Rowe may actually benefit from interest rate increases.

T. Rowe's strong relative performance of its funds drive investors to purchase the company's funds, or continue holding them. Superior research leads better returns versus peers, which makes up a good portion of T. Rowe's favorable competitive position.

During the last financial crisis shares of T. Rowe were sold off along with the shares of virtually every other financial corporation, but unlike many banks, insurers, etc. T. Rowe remained highly profitable. In the long run investors have seen very compelling returns if they held shares of the company through the last financial crisis.

T. Rowe's earnings were resilient during the last financial crisis, and on top of that the company's payout ratio is relatively low (around 40%). The combination of these factors makes T. Rowe's dividend very safe. When we add in the combination of a solid dividend yield and regular dividend increases T. Rowe looks like a compelling dividend growth investment.

Final Thoughts & Recommendation

T. Rowe should provide attractive total returns going forward, through a combination of earnings growth, valuation expansion and dividend payments. Relative to other financial corporations T. Rowe has been resilient in the past, and that will likely remain the case. Due to low liabilities, high margins, a low dividend payout ratio and the competitive advantage of well-performing funds T. Rowe looks like a low risk pick in the financial industry.

Total Return Breakdown by Year