Principal Financial Group (PFG)

Updated June 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	12.9%	**Quality Percentile:**	N/A
Fair Value Price:	$60	**5 Year Growth Estimate:**	8.1%	**Momentum Percentile:**	N/A
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Total Return Percentile:**	N/A
Dividend Yield:	3.7%	**5 Year Price Target**	$89	**Valuation Percentile:**	

Overview & Current Events

Principal Financial Group is a financial corporation that operates several businesses including insurance (primarily life insurance) and investment management (retirement solutions, asset management). Principal Financial Group was founded in 1879, is headquartered in Des Moines, IA, and is currently valued at $16 billion.

Principal Financial Group reported its first quarter results on April 26, the company announced earnings per share of $1.40, an increase of 10% versus $1.27 in the prior year's first quarter. The company was able to grow its assets under management (AuM) as well as its revenues from its life insurance business as well. Principal Financial Group has also raised its dividend again, to $0.52, which represents an increase of 13% year over year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.63	$2.69	$2.63	$2.76	$2.69	$3.55	$4.41	$4.26	$4.55	$5.04	***$5.50***	***$8.10***
DPS	$0.45	$0.50	$0.55	$0.70	$0.78	$0.98	$1.28	$1.50	$1.61	$1.87	***$2.10***	***$3.40***

Principal Financial Group recorded an average annual EPS growth rate of 13.4% between 2008 and 2017, which is a very compelling feat. Growth was a bit uneven, though, there were some years where the company's profitability declined.

Principal Financial Group is active in two different businesses: Principal Financial Group's asset management operations provided $330 million in operating earnings during Q1, the company's insurance business provided $110 million in operating earnings during the same quarter.

The company's asset management business, where Principal Global Investors and Retirement & Income Solutions are the main components, benefited from solid AuM growth. During Q1 AuM hit a record level of more than $670 billion. Principal Financial Group's retirement and income solutions business is doing especially well, as it benefits from strong net cash flows due to a rising number of new customers. The company's asset management business is attractive for investors, as Principal's actively managed funds, ETFs and other vehicles performed better than the median of their asset class in 80% of cases over one year. Principal's investments performed better than the median of their asset class in an even higher 86% of cases over the last five years. As Principal produces above-average returns for its customers, customers are attracted to letting Principal manage their money, which bodes well for future revenue growth.

With its insurance business Principal Financial Group has been able to grow its premiums and fees in the past as well, and with rising interest rates the float the company holds can be invested at higher returns, which should positively impact Principal Financial Group's investment income. Principal Financial Group has also boosted its EPS growth by repurchasing shares in the past, and bought back one percent of its stock in Q1.

Principal Financial Group has increased its dividend every quarter over the last two years, and regularly (although not every quarter) before that. The dividend was grown by 16% annually since 2008 and should continue to grow.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	26.5	7.5	10.1	10.3	10.0	11.1	11.2	11.9	10.1	12.8	***10.4***	***11.0***
Avg. Yld.	1.0%	2.5%	2.1%	2.5%	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	***3.7%***	***4.0%***

Principal Financial Group was valued at a relatively inexpensive valuation through the last decade, it currently trades at a small discount to its ten-year median P/E ratio of 11. This could positively impact total returns going forward (as its valuation has some upside potential), as does the company's dividend that yields a relatively attractive 3.7% right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	98.1%	94.2%	93.2%	93.6%	94.0%	95.3%	95.3%	95.7%	95.5%	94.9%	***95.0%***	***95.0%***
Payout	27.6%	18.6%	20.9%	25.4%	29.0%	27.6%	29.0%	35.2%	35.4%	37.1%	***38.2%***	***42.0%***
Std. Dev.	80.7%	122%	37.1%	27.3%	22.8%	16.0%	20.6%	20.9%	26.8%	13.3%	***18.0%***	***17.0%***

Principal Financial Group is highly leveraged because it is an insurer. The company's insurance liabilities ('float') is really an asset as the company gets to use this money and benefit from interest income. Due to net interest income being positive investors don't have to worry about the company's leverage. Rising interest rates will lead to higher returns for the company's investments and are therefore not a headwind despite a high liabilities to assets ratio.

Over the last decade Principal Financial Group has increased its dividend payout ratio continuously, but at less than 40% of earnings the payout ratio still is not high at all. Shares of the company were very volatile during the financial crisis (as were most shares of financial corporations), but they were not especially volatile in the last couple of years.

The strong performance of Principal Financial Group's actively managed funds, ETFs and other products is a competitive advantage, as this increases the likelihood of customers deciding they want Principal Financial Group to manage their assets (instead of an asset manager whose investments haven't performed that well in the past).

Even though Principal Financial Group's stock was extremely volatile during the last financial crisis its actual underlying performance wasn't impacted much, operating earnings declined by 10% from 2007 to 2008 and started to rise again in 2009.

Final Thoughts & Recommendation

Principal Financial Group is a company whose history dates back more than a century. The company has been able to deliver strong growth over the last decade. Going forward growth will be a bit slower, but thanks to a low valuation and a relatively high dividend yield total returns should still be attractive going forward. PFG is a buy at current prices.

Total Return Breakdown by Year