Principal Financial Group (PFG)

Updated July 28th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	12.7%	**Volatility Percentile:**	65.1%
Fair Value Price:	$61	**5 Year Growth Estimate:**	8.1%	**Momentum Percentile:**	16.1%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Valuation Percentile:**	70.2%
Dividend Yield:	3.7%	**5 Year Price Target**	$89	**Total Return Percentile:**	83.8%

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 $17 billion.

Principal Financial Group reported its second quarter results on July 26. The company reported earnings per share of $1.35, a small increase versus $1.31 in Q2 2017. Principal Financial Group has also grown its revenues by 1.6% during the second quarter. Assets under management grew to $667 billion, an increase of 6% year over year.

Principal Financial Group has raised its dividend to $0.53 per share per quarter on July 27.

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 the most recent quarter while 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, benefits from solid assets under management (AuM) growth. A rising amount of new customers helps drive AuM. Net inflows totaled $2.3 billion during the second quarter. 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. 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. This should positively impact Principal Financial Group's investment income going forward. Principal Financial Group has also boosted its EPS growth by repurchasing shares in the past. We expect the company will continue to do so in the future.

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	***10.5***	***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%***

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.

Principal Financial Group is currently trading at a little bit above 10 times this year's earnings. This is a quite inexpensive valuation, and a small discount to the median valuation over the last decade. Investors get a compelling dividend yield of 3.7% today, which is quite attractive when coupled with Principal's high dividend growth rate.

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 do not 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.

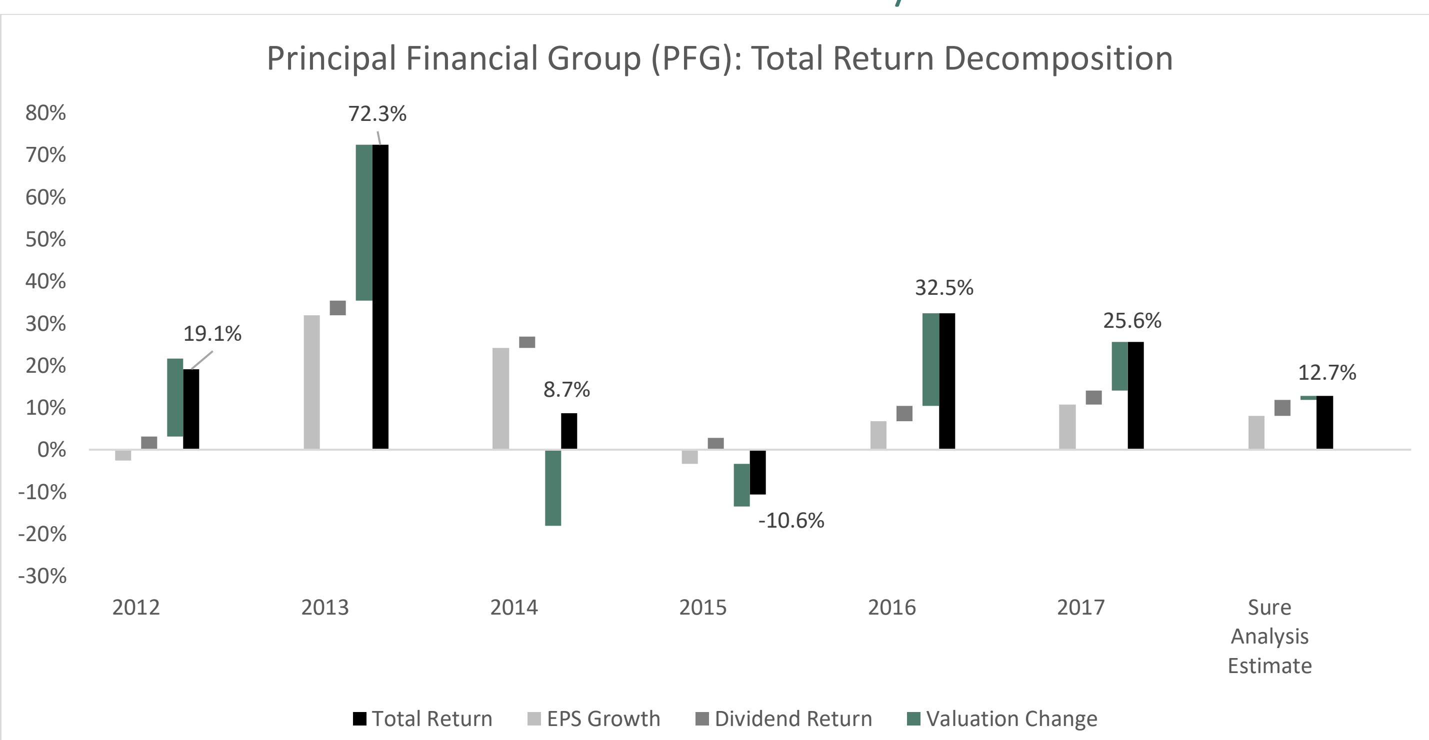
The strong performance of Principal Financial Group's actively managed funds, ETFs and other products is a competitive advantage, as this increases the likelihood of customers choosing Principal to manage their assets.

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 just 10% from 2007 to 2008 and started to rise again in 2009. This compares very favorably to the underlying performance of other financial corporations.

Final Thoughts & Recommendation

Principal Financial, which has a century-long history, has grown earnings at an attractive pace in the past. Growth has slowed down to some degree, but with a high dividend yield and the benefit of a low valuation shares should still deliver solid total returns over the coming five years. Due to its undervaluation and a strong total return profile, Principal Financial earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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