T. Rowe Price Group (TROW)

Updated July 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$124	**5 Year CAGR Estimate:**	7.0%	**Volatility Percentile:**	50.4%
Fair Value Price:	$113	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	94.6%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Valuation Percentile:**	43.6%
Dividend Yield:	2.3%	**5 Year Price Target**	$156	**Total Return Percentile:**	40.2%

Overview & Current Events

T. Rowe Price Group is one of the largest publicly-traded asset managers. The company has a market capitalization of $30 billion and assets under management of more than $1 trillion (as of the end of June 2018). T. Rowe was founded in 1937 and is headquartered in Baltimore, MD.

T. Rowe has released its most recent earnings report on July 25. The company reported earnings per share of $1.87, an increase of 46% year over year. The company was able to grow its revenues by 13% versus the previous year's second quarter. Revenues totaled $1.35 billion during Q2. Assets under management grew to $1.04 billion at the end of Q2.

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. Because of this, higher revenues (driven primarily by increasing assets under management) 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 customers 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	***19.7***	***18.0***
Avg. Yld.	2.4%	2.5%	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	***2.3%***	***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 several months T. Rowe's share price rose substantially, which has led to an increasing price-to-earnings ratio. T. Rowe Price Group is trading at a premium over its long term median valuation after its share price has risen substantially in 2018. The high relative valuation will lead to a small multiple compression headwind going forward.

T. Rowe Price Group's dividend yield is significantly higher than the yield of the broad market, which makes shares of the company look somewhat attractive for income investors. Due to a low dividend payout ratio there is ample room for dividend increases in coming years.

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	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 require much in the way of total 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.

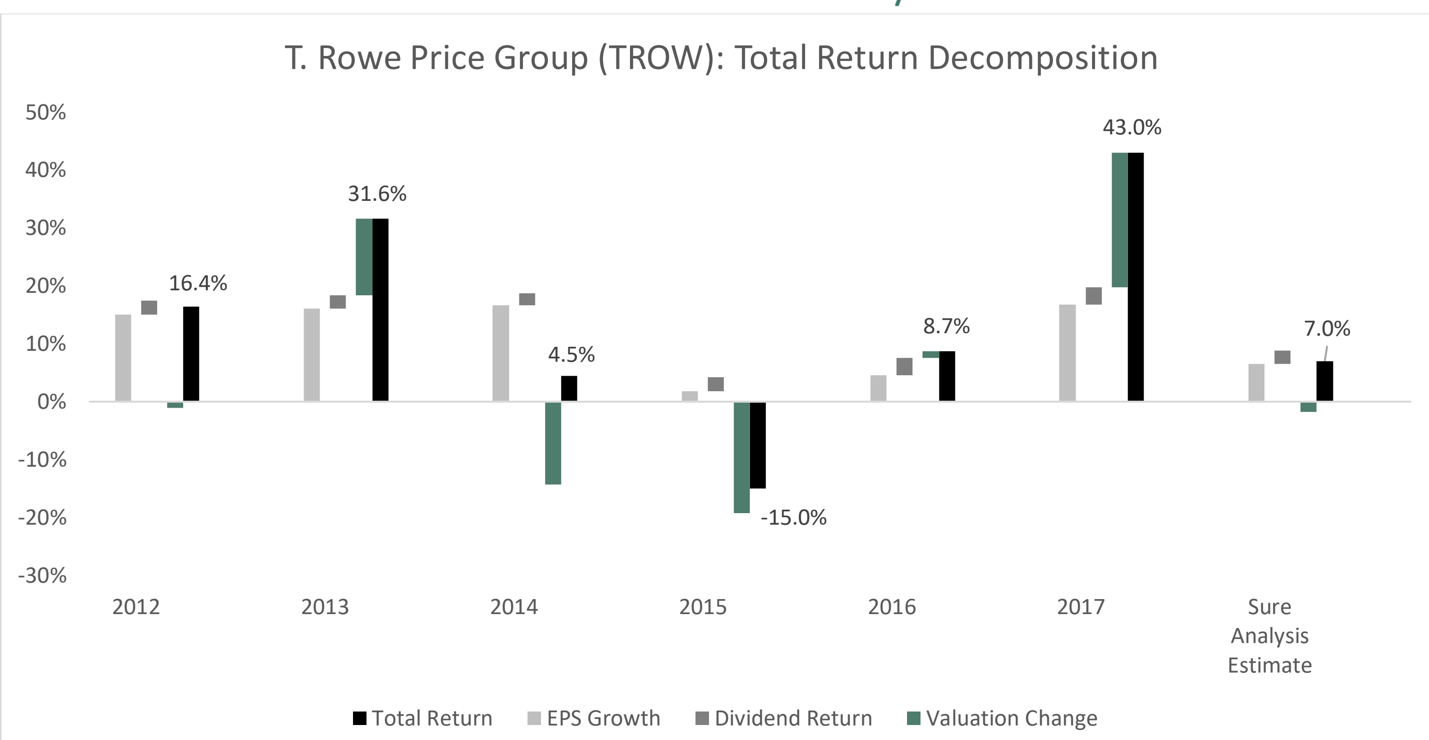
T. Rowe's strong relative performance of its funds drive investors to purchase the company's funds, or continue holding them. Superior research leads better returns versus peers, which makes up a good portion of T. Rowe's favorable competitive position.

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, 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. 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

Through a combination of earnings growth and dividend payments T. Rowe should provide solid total returns going forward. Relative to other financial corporations, T. Rowe has been resilient in the past. This resilience, coupled with low debt levels and a low dividend payout ratio, makes T. Rowe a low-risk pick in the financial industry. Due to a valuation that is somewhat higher than what we deem fair value, T. Rowe looks like a hold at current prices.

Total Return Breakdown by Year



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