



# T. Rowe Price Group (TROW)

Updated January 31<sup>st</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$89	<b>5 Year CAGR Estimate:</b>	13.7%	<b>Volatility Percentile:</b>	49.0%
<b>Fair Value Price:</b>	\$111	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	22.7%
<b>% Fair Value:</b>	80%	<b>5 Year Valuation Multiple Estimate:</b>	4.6%	<b>Growth Percentile:</b>	60.7%
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$149	<b>Valuation Percentile:</b>	81.0%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	81.2%

## Overview & Current Events

T. Rowe Price Group is one of the largest publicly-traded asset managers. The company has a market capitalization of \$21.5 billion and assets under management of roughly \$1 trillion, as of the end of December 2018. T. Rowe price Group was founded in 1937 and is headquartered in Baltimore, MD.

T. Rowe reported its fourth quarter and full year 2018 earnings results on January 30. The company managed to generate revenues of \$1.31 billion during the quarter, which represents a growth rate of 2.2% compared to the prior year's period. This revenue growth was possible despite a decline in T. Rowe's assets under management. Market declines in combination with net outflows of \$8.4 billion during the fourth quarter made assets under management decline to \$960 billion from a level of more than \$1 trillion at the beginning of the fourth quarter. Net investment advisory revenues from US mutual funds were flat compared to the prior year' period, but revenues from subadvised and separate accounts were up 8% year over year to \$365 million. T. Rowe's effective fee rate declined from 47.1 basis points at the end of 2017 to 46.4 basis points at the end of 2018. Management explained that the decline was driven by client transfers to lower fee vehicles and a shift in asset mix toward lower fee products.

T. Rowe managed to generate earnings-per-share of \$1.54 during the fourth quarter. This was 1% more than T. Rowe's earnings-per-share during the fourth quarter of fiscal 2017, which was less than what analysts had forecasted. The combination of a low profit growth rate and the miss of the analyst consensus led to a negative reaction in T. Rowe's share price, as the stock declined by 4% on the day of the earnings release. This brought T. Rowe's share price back below \$90 and close to the 52-week low.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.65	\$2.53	\$2.92	\$3.36	\$3.90	\$4.55	\$4.63	\$4.84	\$5.65	\$7.14	<b>\$6.95</b>	<b>\$9.30</b>
<b>DPS</b>	\$1.00	\$1.08	\$1.24	\$1.36	\$1.52	\$1.76	\$2.08	\$2.16	\$2.28	\$2.80	<b>\$3.00</b>	<b>\$4.10</b>
<b>Shares</b>	259	259	253	257	262	261	250	245	245	247	<b>244</b>	<b>238</b>

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. The majority of all financial corporations were impacted to a larger degree than T. Rowe Price Group during the financial crisis.

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. The tremendous earnings growth rate during 2018 will not be sustainable in the long run.

*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.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	24.2	20.8	20.2	18.5	19.3	17.9	16.7	14.7	13.1	12.9	<b>12.8</b>	<b>16.0</b>
Avg. Yld.	2.5%	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	3.0%	<b>3.1%</b>	<b>2.5%</b>

T. Rowe Price trades at roughly 13 times 2019's net profits, which is a relatively low valuation compared to how the company's shares were valued in the past. We believe that it is unlikely that T. Rowe's share price will rise towards a price to earnings ratio in the high teens range in the future, though. The rise of ETFs will lead to lower growth rates for T. Rowe going forward, which is reflected in our believe that shares would be fairly valued with an earnings multiple in the mid-teens, which is somewhat lower than the long-term median earnings multiple.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60.6%	42.7%	42.5%	40.5%	39.0%	38.7%	44.9%	44.6%	40.4%	39.2%	<b>43.2%</b>	<b>44.1%</b>

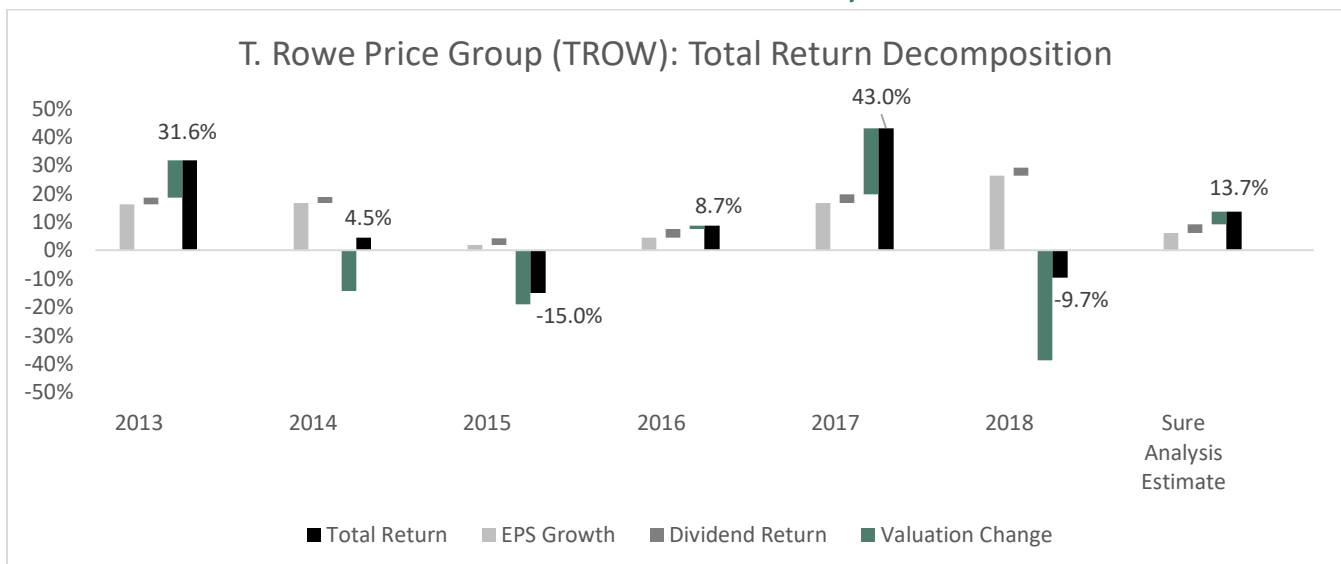
T. Rowe's dividend payout ratio has moved between 40% and 60% throughout the last decade. We believe that the dividend looks sufficiently safe, especially as the payout ratio did not rise to an unsustainable level during the last financial crisis, which showcases that T. Rowe is not overly vulnerable versus market crashes.

T. Rowe's strong relative performance of its funds drives investors to purchase the company's funds, or continue holding them. Superior research leads to 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 more or less every other financial corporation, but unlike many banks & insurers, T. Rowe remained highly profitable.

## Final Thoughts & Recommendation

T. Rowe is an asset manager that faces the same headwinds from the rise of ETFs as many of its peers. The company provides above-average returns for the investors that invest in its funds, though, which serves as a competitive advantage, and which should allow for at least some growth throughout the next couple of years. T. Rowe's shares offer compelling total returns going forward, which is why we rate them a buy at the current level.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	2116	1867	2364	2747	3023	3484	3982	4201	4223	4793
<b>Gross Profit</b>	2015	1765	1461	1703	1879	2210	2509	2606	2587	2981
<b>Gross Margin</b>	95.2%	94.5%	61.8%	62.0%	62.2%	63.4%	63.0%	62.0%	61.3%	62.2%
<b>SG&amp;A Exp.</b>	920	847	87	91	89	87	76	80	80	92
<b>D&amp;A Exp.</b>	62	66	63	72	81	91	112	126	133	144
<b>Operating Profit</b>	849	702	1034	1227	1364	1637	1891	1899	1733	2109
<b>Operating Margin</b>	40.1%	37.6%	43.7%	44.7%	45.1%	47.0%	47.5%	45.2%	41.0%	44.0%
<b>Net Profit</b>	491	434	672	773	884	1048	1230	1223	1215	1498
<b>Net Margin</b>	23.2%	23.2%	28.4%	28.1%	29.2%	30.1%	30.9%	29.1%	28.8%	31.2%
<b>Free Cash Flow</b>	598	402	615	866	826	1127	1218	1379	22	43
<b>Income Tax</b>	305	255	398	477	552	653	774	779	707	924

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	2819	3210	3642	3770	4203	5033	5644	5107	6225	7535
<b>Cash &amp; Equivalents</b>	619	743	813	898	879	1398	1506	1172	1205	1903
<b>Accounts Receivable</b>	177	246	308	305	354	399	443	446	455	557
<b>Goodwill &amp; Int. Ass.</b>	666	666	666	666	666	666	666	666	666	666
<b>Total Liabilities</b>	331	328	346	350	357	215	249	345	1216	1710
<b>Accounts Payable</b>	87	80	79	83	90	104	143	171	181	216
<b>Long-Term Debt</b>	0	0	0	0	0	0	0	0	0	0
<b>Shareholder's Equity</b>	2489	2882	3297	3421	3846	4818	5395	4762	5009	5824
<b>D/E Ratio</b>	0	0	0	0	0	0	0	0	0	0

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	16.4%	14.4%	19.6%	20.9%	22.2%	22.7%	23.0%	22.8%	21.4%	21.8%
<b>Return on Equity</b>	18.6%	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%
<b>ROIC</b>	18.6%	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%
<b>Shares Out.</b>	257	259	259	253	257	262	261	250	245	245
<b>Revenue/Share</b>	7.84	7.12	8.92	10.43	11.58	13.08	14.89	16.10	16.87	19.56
<b>FCF/Share</b>	2.21	1.53	2.32	3.29	3.16	4.23	4.55	5.29	0.09	0.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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