Principal Financial Group (PFG)

Updated January 31st, 2019 by Jonathan Weber

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	17.4%	**Volatility Percentile:**	55.6%
Fair Value Price:	$62	**5 Year Growth Estimate:**	8.1%	**Momentum Percentile:**	13.7%
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Growth Percentile:**	81.0%
Dividend Yield:	4.5%	**5 Year Price Target**	$92	**Valuation Percentile:**	81.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	92.0%

Overview & Current Events

Principal Financial Group is a financial corporation that operates several businesses including insurance, primarily life insurance, and investment management, primarily retirement solutions and asset management. Principal Financial Group was founded in 1879, is headquartered in Des Moines, IA, and is currently valued at $13.6 billion.

Principal Financial Group reported its fourth quarter and full year earnings results on January 29. The company recorded revenues of $387 million for its retirement and income solutions fee business, which was 6% less than the fee revenues that were generated by the segment during the previous year's period. The spread revenues for this segment rose by 10%, though. Principal Global Investors reported revenues of $317 million, which was 5% less than the segment's revenues during the fourth quarter of fiscal 2017. Principal International reported revenues of $213 million, which was 11% less than the segment's revenues during the prior year's quarter. The market selloff during Q4 hurt the company, as only 41% of Principal Financial Group's assets under management outperformed their respective peers over the last year. 73% of the company's assets under management hold a 4 or 5 star rating by Morningstar, though.

Principal Financial Group generated earnings-per-share of $1.11 during the fourth quarter, which was 8.8% more than the earnings-per-share that were created during the previous year's quarter. This was a relatively strong performance when we account for the not-so-strong revenue performance and the headwinds from the equity market sell-off during the fourth quarter that negatively impacted Principal Financial Group's asset management business.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.69	$2.63	$2.76	$2.69	$3.55	$4.41	$4.26	$4.55	$5.04	$5.53	***$5.66***	***$8.35***
DPS	$0.50	$0.55	$0.70	$0.78	$0.98	$1.28	$1.50	$1.61	$1.87	$2.13	***$2.30***	***$3.50***
Shares	319	320	301	293	298	299	298	288	289	285	***280***	***265***

Principal Financial Group recorded a highly compelling average annual earnings-per-share growth rate of 13.4% between 2008 and 2017. 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, asset management and insurance.

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 $0.2 billion during the third 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 89% 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. 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 earnings-per-share growth by repurchasing shares over the last couple of years. The company plans to do the same in the future.

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Principal Financial Group has increased its dividend every quarter over the last two years, and regularly before that. The dividend was grown by 16% annually since 2008 and should continue to grow moving forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	7.5	10.1	10.3	10.0	11.1	11.2	11.9	10.1	12.8	8.0	***8.7***	***11.0***
Avg. Yld.	2.5%	2.1%	2.5%	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	***4.5%***	***3.8%***

Principal Financial Group trades at slightly below 9 times 2019's expected net profits right now, which is a quite low valuation relative to how the company's shares were valued in the past, even though shares of the company never traded at an especially high valuation throughout the last decade. We see considerable upside potential for Principal Financial Group's valuation, which will be a tailwind for shareholders' total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	18.6%	20.9%	25.4%	29.0%	27.6%	29.0%	35.2%	35.4%	37.1%	38.5%	***40.6%***	***41.9%***

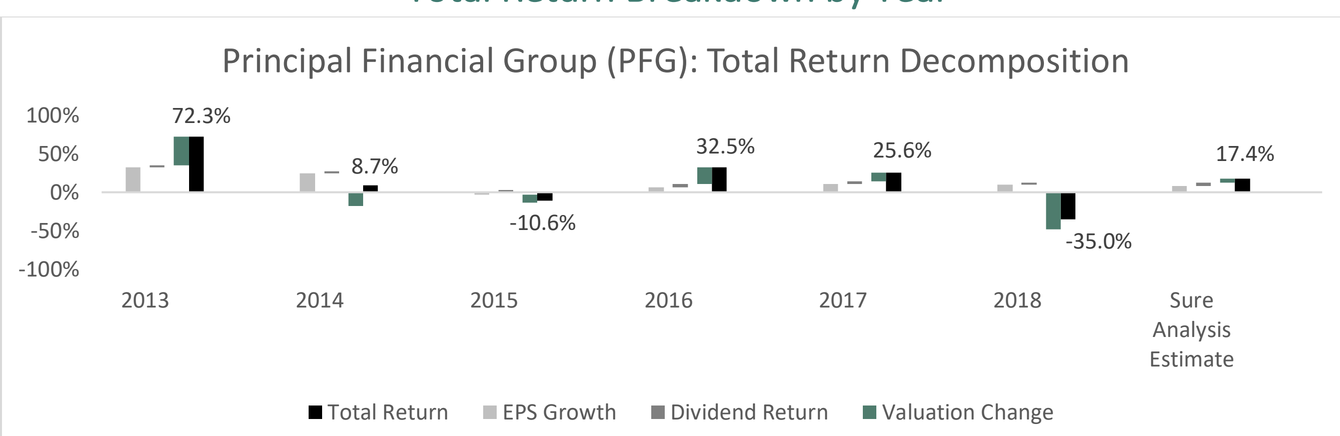
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 50%, though, which makes us believe that the dividend is relatively safe.

The strong performance and rating 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. Principal Financial Group's stock was extremely volatile during the last financial crisis, but its actual underlying performance was not 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 much weaker performance of many other financial corporations.

Final Thoughts & Recommendation

Principal Financial Group has generated compelling earnings-per-share growth, dividend growth, and share price gains throughout the last decade. The company is, compared to other financial corporations, relatively resilient versus recessions and market downturns, which makes Principal Financial Group viable for risk-averse investors. We believe that the company's shares will offer solid total returns going forward, which is why the company earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	9936	8849	9198	8671	9215	9290	10478	11964	12394	14093
SG&A Exp.	N/A	N/A	2988	2971	2934	3293	3574	3672	3733	3894
D&A Exp.	145	139	165	120	132	154	170	193	187	196
Net Profit	458	623	663	638	807	913	1144	1234	1317	2310
Net Margin	4.6%	7.0%	7.2%	7.4%	8.8%	9.8%	10.9%	10.3%	10.6%	16.4%
Free Cash Flow	2120	2217	2770	2656	3042	2162	2967	4241	3703	4023
Income Tax	-5	100	105	198	135	188	319	178	230	-72

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	128.2	137.76	145.63	147.36	161.83	208.19	219.09	218.66	228.01	253.94
Cash & Equivalents	2608	2240	1877	2834	4177	2372	1864	2565	2720	2471
Accounts Receivable	988	1065	1063	1197	1084	1241	1213	1429	1362	1470
Goodwill & Int. Ass.	1301	1238	1180	1373	1458	2559	2331	2368	2346	2384
Total Liab. ($B)	125.7	129.74	135.75	137.99	152.13	198.41	208.86	209.28	217.72	241.02
Long-Term Debt	1791	1686.2	1691.6	1670	2712.1	2752	2559.2	3446.3	3177.1	3217.9
Shareholder's Equity	2473	7893.4	9727.7	9017.8	9683.3	9684.1	10184	9311.6	10227	12849
D/E Ratio	0.72	0.21	0.17	0.19	0.28	0.28	0.25	0.37	0.31	0.25

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.3%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%	1.0%
Return on Equity	9.3%	12.0%	7.5%	6.8%	8.6%	9.4%	11.5%	12.7%	13.5%	20.0%
ROIC	6.8%	8.9%	6.2%	5.6%	6.9%	7.3%	9.0%	9.6%	10.0%	15.6%
Shares Out.	260	319	320	301	293	298	299	298	288	289
Revenue/Share	38.05	29.61	28.48	27.30	30.68	31.15	35.08	40.15	42.34	48.08
FCF/Share	8.12	7.42	8.58	8.36	10.13	7.25	9.93	14.23	12.65	13.73

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