



Prudential Financial (PRU)

Updated January 28th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$93	5 Year CAGR Estimate:	10.2%	Volatility Percentile:	58.7%
Fair Value Price:	\$103	5 Year Growth Estimate:	4.3%	Momentum Percentile:	19.1%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Growth Percentile:	29.6%
Dividend Yield:	3.9%	5 Year Price Target	\$128	Valuation Percentile:	64.4%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	51.3%

Overview & Current Events

Prudential Financial, now in business for over 140 years, operates in the United States, Asia, Europe and Latin America, with more than \$1 trillion in assets under management. The company provides financial products – including life insurance, annuities, retirement-related services, mutual funds and investment management. Prudential operates in five divisions: PGIM (formerly Prudential Investment Management), U.S. Workplace Solutions, U.S. Individual Solutions, International Insurance, and Closed Block. The \$38 billion market cap company is on pace to bring in over \$5 billion in net profit this year.

On November 7th, 2018 Prudential reported Q3 2018 results for the period ending September 30th, 2018. For the quarter the company reported after-tax adjusted operating income of \$1.346 billion (\$3.15 per common share) compared to \$1.323 billion (\$3.01 per share) in the year ago period. This was helped by an uptick in life planner operations (part of the International Insurance division) and a tax rate of 19.3% compared to 25.8% previously. Adjusted book value per share totaled \$95.20 against \$85.03 a year ago. At quarter end Prudential held \$1.41 trillion in assets under management.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.69	\$5.58	\$6.27	\$6.41	\$6.27	\$9.67	\$9.21	\$10.04	\$9.13	\$10.58	\$12.15	\$15.00
DPS	\$0.58	\$0.70	\$1.15	\$1.45	\$1.60	\$1.73	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$5.10
Shares	421	462	484	468	463	461	454	447	430	423	415	400

The above levels of growth may be a bit optimistic, considering 2008 was a low point for the business. If you look at 2007 (when the company was earning \$7.31 and paying out \$1.15) through 2017, Prudential has grown earnings-per-share by about 3.8% per year and the dividend compounded at a rate of roughly 10.1% per annum for the last decade.

Moving forward we anticipate solid year-over-year growth for 2018, as the company enjoys a much lower tax rate. (Indeed, Prudential has already posted \$11.93 in earnings on a trailing 12-month basis.) Looking out to the intermediate-term, we believe the company can continue growing in a low to mid-single digit range, as management has already provided the expectations of earning \$12.50 to \$13.00 per share for 2019.

Higher interest rates and general economic growth can be positives for the company's growth prospects; however, there are plenty of offsetting factors. The majority of Prudential's business is in the U.S. and Japan, both of which are mature markets and where we do not anticipate above average growth. Life insurance and annuities are highly competitive industries. Further, insurers do not know the price of the goods sold for years, allowing for the temptation to underprice policies in search for growth. We believe a slow, steady and profitable approach in this industry is prudent.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.6	6.8	8.9	8.9	8.7	7.4	8.8	8.3	8.7	10.2	7.7	8.5
Avg. Yld.	0.9%	1.8%	2.1%	2.5%	2.9%	2.4%	2.5%	2.9%	3.5%	2.8%	3.9%	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.



Prudential Financial (PRU)

Updated January 28th, 2019 by Eli Inkrot

Absent the financial crisis, shares of Prudential have traded hands with an average P/E ratio of about 8.5 times earnings. This seems low compared to your average firm, equating to a starting earnings multiple of 11.8%, but has been typical of insurers. Still, while shares have not often commanded a premium above 10 times earnings in the last decade, there is some room for valuation improvement from this point.

The dividend ought to add meaningfully to shareholder returns as well, as it sits near 4% and yet only takes up about a third of earnings – leaving ample room for growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	22%	13%	18%	23%	26%	18%	24%	24%	31%	28%	30%	34%

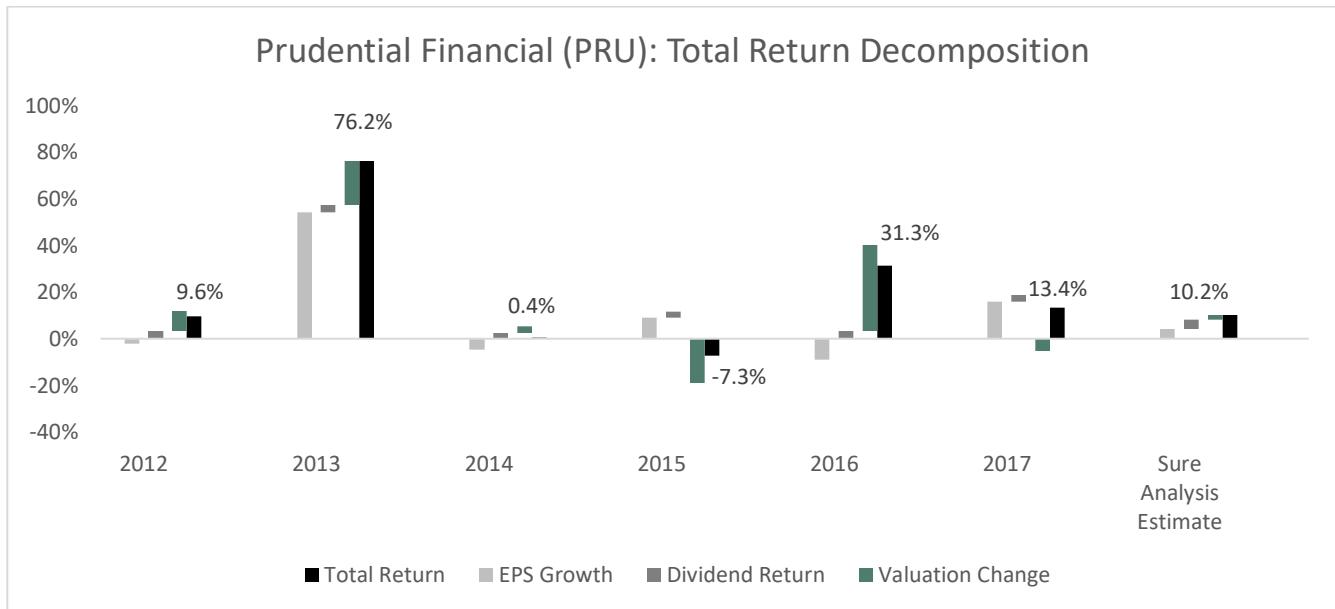
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

During the last recession, Prudential generated earnings-per-share of \$7.31 in 2007 followed by \$2.69, \$5.58 and \$6.27 in 2008 through 2010. It wasn't until 2014 that earnings finally eclipsed their pre-recession peak. Similarly, the dividend was slashed from \$1.15 in 2007 down to \$0.58 in 2008 and did not recover until 2010. This sort of cyclicality is certainly possible in the next downturn. Still, the company has a reasonable payout ratio and financial position. We do note that while earnings dipped significantly during the last recession, dilutive activity was not excessive.

Final Thoughts & Recommendation

There is a lot to like about Prudential. The company is on pace to generate over \$5 billion in net profit and the security trades under 8 times earnings, with a well-covered dividend yield near 4%. At those levels, average business results can turn into solid investor gains. Further, shares trade at a discount to book value, although much like the average valuation, this has been a typical occurrence. There is a lingering negative: even in good times growth is not especially robust and in lesser times the rate of improvement can fall off the rails completely. Still, with shares down 20% or so in the last year, amidst an improving business, Prudential is a borderline buy and certainly a strong hold at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Prudential Financial (PRU)

Updated January 28th, 2019 by Eli Inkrot

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	29219	32566	38217	49085	84847	41461	54105	57119	58779	59689
SG&A Exp.	9274	7392	8309	10605	11094	11011	11807	10912	11779	11915
D&A Exp.	717	175	104	290	302	411	631	113	318	222
Net Profit	-1117	3124	3001	3632	520	-667	1381	5642	4368	7863
Net Margin	-3.8%	9.6%	7.9%	7.4%	0.6%	-1.6%	2.6%	9.9%	7.4%	13.2%
Free Cash Flow	10855	5840	6542	12377	20909	8445	19396	13942	14815	13445
Income Tax	-487	-54	1243	1515	213	-1058	349	2072	1335	-1438

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	445.01	480.20	539.85	620.24	709.24	731.78	766.66	757.26	783.96	831.92
Cash & Equivalents	15028	13164	12915	14251	18100	11439	14918	17612	14127	14490
Goodwill & Int.	N/A	N/A	N/A	3845	3248	3675	2836	2828	2314	1591
Total Liab. (\$B)	431.23	454.47	506.93	585.40	670.12	695.90	724.31	715.33	737.87	777.58
Long-Term Debt	30825	24159	25635	27482	28790	29524	29728	29407	21324	20070
Total Equity	13435	25195	32415	34253	38503	35278	41770	41890	45863	54069
D/E Ratio	2.29	0.96	0.79	0.80	0.75	0.84	0.71	0.70	0.47	0.37

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-0.2%	0.7%	0.6%	0.6%	0.1%	-0.1%	0.2%	0.7%	0.6%	1.0%
Return on Equity	-6.1%	16.2%	10.4%	10.9%	1.4%	-1.8%	3.6%	13.5%	10.0%	15.7%
ROIC	-2.3%	6.6%	5.5%	6.0%	0.8%	-1.0%	2.0%	7.9%	6.3%	11.1%
Shares Out.	421	462	484	468	463	461	454	447	430	423
Revenue/Share	68.00	72.66	80.39	100.44	181.26	89.53	115.68	124.06	131.61	136.90
FCF/Share	25.26	13.03	13.76	25.33	44.67	18.24	41.47	30.28	33.17	30.84

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.