Principal Financial Group (PFG)

Updated May 3rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	13.6%	**Volatility Percentile:**	56.8%
Fair Value Price:	$62	**5 Year Growth Estimate:**	8.1%	**Momentum Percentile:**	44.1%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Growth Percentile:**	83.9%
Dividend Yield:	3.8%	**5 Year Price Target**	$92	**Valuation Percentile:**	68.7%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	83.9%

Overview & Current Events

Principal Financial Group is a financial corporation that operates several businesses including insurance, primarily life insurance, and investment management, retirement solutions and asset management. Principal Financial Group was founded in 1879, is headquartered in Des Moines, IA, and is currently valued at $15.8 billion.

Principal Financial Group reported its first quarter earnings results on April 25. The company recorded revenues of $380 million for its retirement and income solutions fee business, which was 5% less than the fee revenues that were generated by the segment during the previous year's period. Spread revenues for this segment rose by 11%, though. Principal Global Investors reported revenues of $304 million, which was 7% less than the segment's revenues during the first quarter of fiscal 2018. Principal International reported revenues of $252 million, which was 5% more than the segment's revenues during the prior year's quarter. The company recovered from the market selloff during Q4 2018, as Principal Financial Group's assets under management totaled $675 billion at the end of the first quarter, which was a new record for the company. A total of 81% of the company's assets under management held a 4 or 5 star rating by Morningstar at the end of the first quarter, which shows high asset quality.

Principal Financial Group generated earnings-per-share of $1.43 during the first quarter, which was 2% more than the earnings-per-share that were created during the previous year's quarter. When we account for headwinds from the equity market selloff during late Q4 that still persisted through parts of the first quarter, this was a solid result, and the fact that Principal Financial Group was able to grow its earnings-per-share bodes well for 2019.

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	***$2.16***	***$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% between 2008 and 2018. Growth was a bit uneven, though. There were some years where the company's profitability declined.

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 number of new customers also helps drive AuM. Net inflows and market appreciation allowed Principal Global Investors to report a new assets under management record at the end of the first 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 83% 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 in the past, and plans to do the same going forward.

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	7.5	10.1	10.3	10.0	11.1	11.2	11.9	10.1	12.8	8.0	***10.1***	***11.0***
Avg. Yld.	2.5%	2.1%	2.5%	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	***3.8%***	***3.8%***

Principal Financial Group trades at just above 10 times 2019's expected net profits right now, which represents a small discount 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 some upside potential for Principal Financial Group's valuation, which should be a tailwind for shareholders' total returns going forward of just under 2% annually.

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%	***38.2%***	***41.9%***

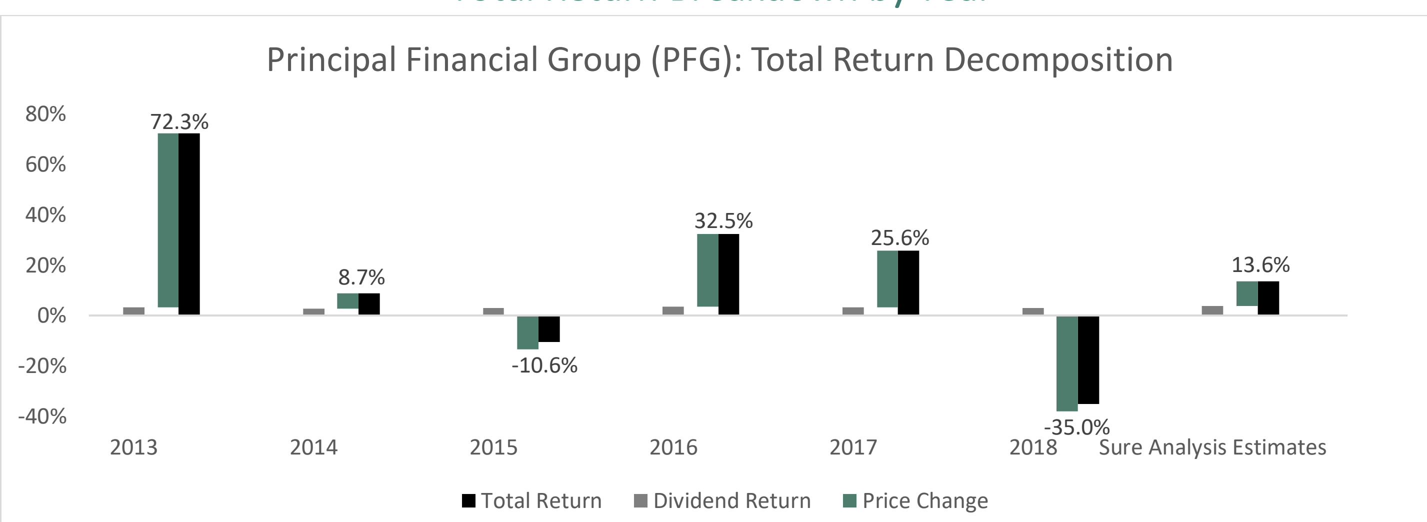
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 50%, though, which makes us believe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

The strong performance and ratings 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. Relative to its peers from the financial industry, Principal Financial Group has been 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 and that shares are undervalued, which is why the company earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	8849	9198	8671	9215	9290	10478	11964	12394	14093	14237
SG&A Exp.	N/A	2988	2971	2934	3293	3574	3672	3733	3894	4137
D&A Exp.	139	165	120	132	154	170	193	187	196	205
Net Profit	623	663	638	807	913	1144	1234	1317	2310	1547
Net Margin	7.0%	7.2%	7.4%	8.8%	9.8%	10.9%	10.3%	10.6%	16.4%	10.9%
Free Cash Flow	2217	2770	2656	3042	2162	2967	4241	3703	4023	5064
Income Tax	100	105	198	135	188	319	178	230	-72	231

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	137.8	145.6	147.4	161.8	208.2	219.1	218.7	228.0	253.9	243.0
Cash & Equivalents	2240	1877	2834	4177	2372	1864	2565	2720	2471	2978
Accounts Receivable	1065	1063	1197	1084	1241	1213	1429	1362	1470	1413
Goodwill & Int. Ass.	1238	1180	1373	1458	2559	2331	2368	2346	2384	2415
Total Liab. ($B)	129.7	135.7	138.0	152.1	198.4	208.9	209.3	217.7	241.0	231.6
Long-Term Debt	1686	1692	1670	2712	2752	2559	3446	3177	3218	3303
Shareholder's Equity	7893	9728	9018	9683	9684	10184	9312	10227	12849	11390
D/E Ratio	0.21	0.17	0.19	0.28	0.28	0.25	0.37	0.31	0.25	0.29

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%	1.0%	0.6%
Return on Equity	12.0%	7.5%	6.8%	8.6%	9.4%	11.5%	12.7%	13.5%	20.0%	12.8%
ROIC	8.9%	6.2%	5.6%	6.9%	7.3%	9.0%	9.6%	10.0%	15.6%	10.0%
Shares Out.	319	320	301	293	298	299	298	288	289	285
Revenue/Share	29.61	28.48	27.30	30.68	31.15	35.08	40.15	42.34	48.08	49.30
FCF/Share	7.42	8.58	8.36	10.13	7.25	9.93	14.23	12.65	13.73	17.54

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