T. Rowe Price Group (TROW)

Updated May 8th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$104	**5 Year CAGR Estimate:**	10.2%	**Volatility Percentile:**	50.6%
Fair Value Price:	$111	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	28.8%
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Growth Percentile:**	53.0%
Dividend Yield:	2.9%	**5 Year Price Target**	$149	**Valuation Percentile:**	63.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Total Return Percentile:**	57.5%

Overview & Current Events

T. Rowe Price Group is one of the largest publicly-traded asset managers. The company has a market capitalization of $24 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 first quarter earnings results on April 25. The company managed to generate revenues of $1.3 billion during the quarter, which was 2.2% less than the revenues that T. Rowe Price Group generated during the previous year's quarter. T. Rowe Price Group beat the analyst consensus estimate nevertheless. The recovery in global equity markets during the first quarter from the sell-off towards the end of fiscal 2018, allowed T. Rowe Price Group to grow its assets under management to $1.082 trillion during the first quarter. This represents an increase of $119 billion versus the fourth quarter of fiscal 2018. Net cash flows totaled $5.4 billion, which is quite solid, but the majority of T. Rowe's asset under management growth can be attributed to market appreciation. T. Rowe's funds continued to perform well, 86% of multi-asset funds outperformed their Morningstar median over the last year, and 85% of mutual fund asset under management had a four or five star rating by Morningstar at the end of Q1.

T. Rowe managed to generate earnings-per-share of $1.87 during the first quarter, which was easily ahead of the analyst consensus, beating by $0.26, or by more than 15%. T. Rowe's earnings-per-share were also up by 7.5% compared to the previous year's quarter. T. Rowe stated that it remained opportunistic about share repurchases, buying back 2.5 million shares during the first quarter alone, which is roughly 1% of the company's share count. This is in line with the repurchase pace over the last year, as T. Rowe's share count has declined by ~10 million over the last twelve months.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.65	$2.53	$2.92	$3.36	$3.90	$4.55	$4.63	$4.84	$5.65	$7.14	***$6.95***	***$9.30***
DPS	$1.00	$1.08	$1.24	$1.36	$1.52	$1.76	$2.08	$2.16	$2.28	$2.80	***$3.04***	***$4.10***
Shares	259	259	253	257	262	261	250	245	245	250	***240***	***225***

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 2024. 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	***15.0***	***16.0***
Avg. Yld.	2.5%	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	3.0%	***2.9%***	***2.8%***

T. Rowe Price trades at roughly 15 times 2019's net profits, which is a somewhat higher valuation compared to how the company's shares were valued during the last couple of years. Shares nevertheless trade at a discount to the long-term median price to earnings multiple, though. T. Rowe's price to earnings ratio will not rise to the high-teens or above, mainly due to the fact that the company's growth will be lower going forward compared to the past. We still see some multiple expansion potential towards a price to earnings multiple of 16, though.

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%	***43.7%***	***44.1%***

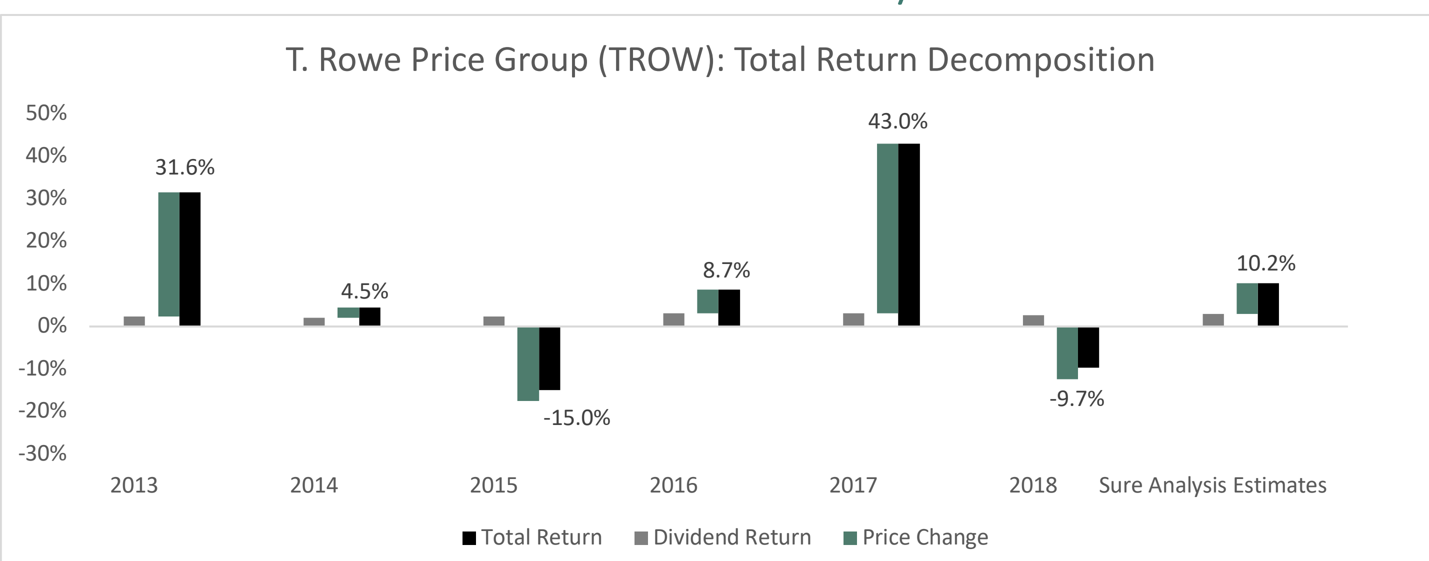
T. Rowe's dividend payout ratio has moved between 40% and 60% throughout the last decade. We believe that the dividend looks sufficiently safe, especially as the payout ratio did not rise to an unsustainable level during the last financial crisis, which showcases that T. Rowe is not overly vulnerable to 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 mostly every other financial corporation, but unlike many banks & insurers, T. Rowe remained highly profitable.

Final Thoughts & Recommendation

T. Rowe reported strong Q1 results, and assets under management are growing at a healthy pace. 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 solid 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1867	2364	2747	3023	3484	3982	4201	4285	4855	5373
Gross Profit	1765	1461	1703	1879	2210	2509	2606	2418	2781	3126
Gross Margin	94.5%	61.8%	62.0%	62.2%	63.4%	63.0%	62.0%	56.4%	57.3%	58.2%
SG&A Exp.	847	196	206	213	223	220	239	618	723	780
D&A Exp.	66	63	72	81	91	112	126	133	144	160
Operating Profit	702	1034	1227	1364	1637	1891	1899	1800	2059	2346
Operating Margin	37.6%	43.7%	44.7%	45.1%	47.0%	47.5%	45.2%	42.0%	42.4%	43.7%
Net Profit	434	672	773	884	1048	1230	1223	1215	1498	1838
Net Margin	23.2%	28.4%	28.1%	29.2%	30.1%	30.9%	29.1%	28.4%	30.9%	34.2%
Free Cash Flow	402	615	866	826	1127	1218	1379	22	43	1451
Income Tax	255	398	477	552	653	774	779	707	924	616

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3210	3642	3770	4203	5033	5644	5107	6225	7535	7689
Cash & Equivalents	743	813	898	879	1398	1506	1172	1205	1903	1425
Accounts Receivable	246	308	305	354	399	443	446	455	565	550
Goodwill & Int. Ass.	666	666	666	666	666	666	666	666	666	666
Total Liabilities	328	346	350	357	215	249	345	1216	1711	1565
Accounts Payable	80	79	83	90	104	143	171	181	216	229
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	2882	3297	3421	3846	4818	5395	4762	5009	5824	6124
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	14.4%	19.6%	20.9%	22.2%	22.7%	23.0%	22.8%	21.4%	21.8%	24.1%
Return on Equity	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%
ROIC	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%
Shares Out.	259	259	253	257	262	261	250	245	245	250
Revenue/Share	7.12	8.92	10.43	11.58	13.08	14.89	16.10	17.12	19.81	21.76
FCF/Share	1.53	2.32	3.29	3.16	4.23	4.55	5.29	0.09	0.18	5.88

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