Principal Financial Group (PFG)

Updated January 30th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	12.2%	**Market Cap:**	$15B
Fair Value Price:	$65	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/28/20
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.7%	**Dividend Payment Date:**	03/27/20
Dividend Yield:	4.0%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.8%

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 billion.

Principal Financial Group reported its fourth quarter earnings results on January 28. The company recorded revenues of $514 million for its retirement and income solutions fee business, which was 36% more than the fee revenues that were generated by the segment during the previous year's period. Principal Financial Group saw its assets under management grow to $735 billion, which was a new record. This was possible thanks to positive net flows which totaled $6.9 billion during the fourth quarter. A total of 87% of the company's assets under management held a 4 or 5 star rating by Morningstar at the end of the fourth quarter, which shows the company's high expertise in managing wealth for its clients. This was also reflected in the fact that 79% of assets outperformed their peer group over the last 5 years.

Principal Financial Group generated earnings-per-share of $1.41 during the fourth quarter, which slightly beat the consensus estimate. Earnings-per-share were up 27% compared to the earnings-per-share that were created during the previous year's quarter. For all of 2019, Principal Financial Group managed to grow its earnings-per-share by 1%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.63	$2.76	$2.69	$3.55	$4.41	$4.26	$4.55	$5.04	$5.53	$5.58	***$5.90***	***$7.53***
DPS	$0.55	$0.70	$0.78	$0.98	$1.28	$1.50	$1.61	$1.87	$2.13	$2.18	***$2.20***	***$2.94***
Shares[1]	320	301	293	298	299	298	288	289	285	281	***278***	***265***

Principal Financial Group recorded a highly compelling average annual earnings-per-share growth rate of 12% between 2008 and 2019. Growth was a bit uneven, though. There were some years where the company's profits 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, in addition to market appreciation. Net inflows and market appreciation allowed Principal Global Investors to report AuM growth during each of the last couple of quarters. 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 roughly 80% of cases over the last five years. As Principal has produced above-average returns for its customers, new customers are attracted to letting Principal manage their wealth, which serves as a competitive advantage versus other asset management companies with a weaker track record.

With its insurance business, Principal Financial Group has been able to grow its premiums and fees in the past as well, and a growing float that can be invested should result in rising investment income over the next couple of years. 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. Through these measures, the company should achieve mid-single-digit growth in the future.

[1] In Millions

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.

Principal Financial Group (PFG)

Updated January 30th, 2020 by Jonathan Weber

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.1	10.3	10.0	11.1	11.2	11.9	10.1	12.8	8.0	10.0	***9.2***	***11.0***
Avg. Yld.	2.1%	2.5%	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	3.9%	***4.0%***	***3.6%***

Principal Financial Group trades at less than 10 times 2020's expected net profits right now, which represents a meaningful 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	20.9%	25.4%	29.0%	27.6%	29.0%	35.2%	35.4%	37.1%	38.5%	39.1%	***37.3%***	***39.1%***

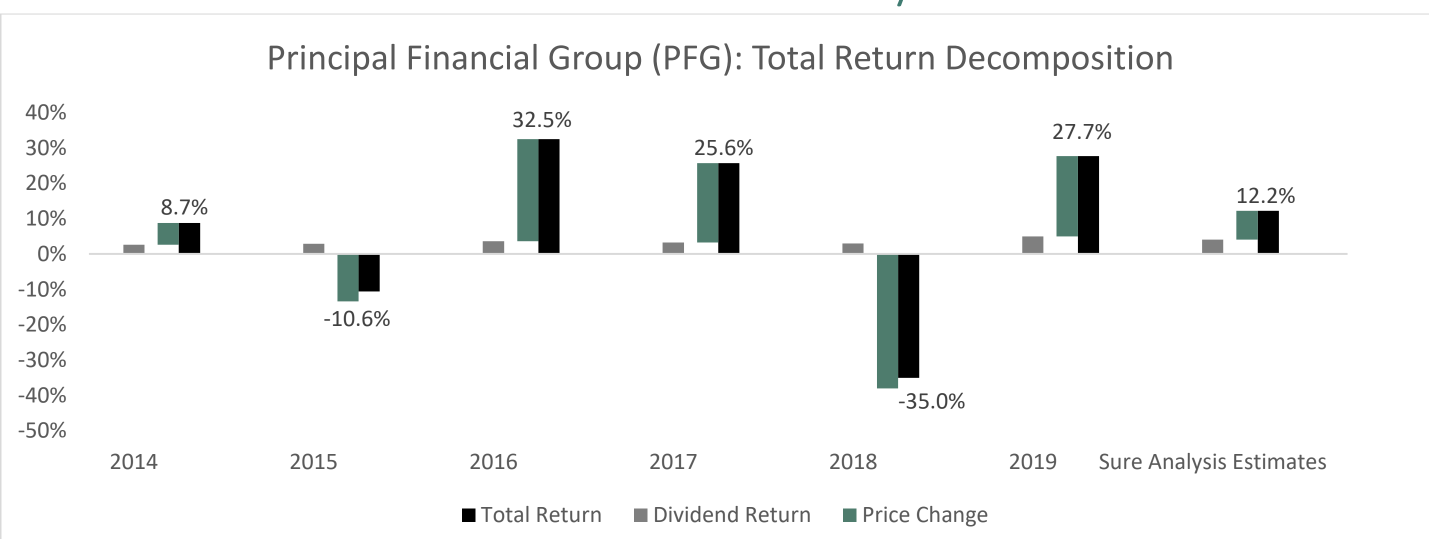
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains below 40%, though, which makes us believe that the dividend is quite 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 companies.

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 resilient to recessions and market downturns, which makes it viable for risk-averse investors. We believe that the company's shares will offer compelling total returns going forward, and that shares are undervalued at current prices, which is why the company earns a buy recommendation from Sure Dividend.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Principal Financial Group (PFG)

Updated January 30th, 2020 by Jonathan Weber

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.