



Prudential Financial Inc. (PRU)

Updated February 5th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	9.9%	Market Cap:	\$39.0 B
Fair Value Price:	\$106	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/17/20
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	03/12/20
Dividend Yield:	4.6%	5 Year Price Target	\$129	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	10.0%

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 \$1.5 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 four divisions: PGIM (formerly Prudential Investment Management), U.S. Workplace Solutions, U.S. Individual Solutions, and International Insurance. The \$39 billion market cap company employs approximately 50,000 people.

On February 4th, 2020 Prudential released Q4 and full year 2019 results for the period ending December 31st, 2019. For the quarter Prudential reported net income of \$1.128 billion (\$2.76 per share) compared to \$842 million (\$1.99 per share) in Q4 2018. After-tax Adjusted Operating Income totaled \$950 million (\$2.33 per share) compared to \$1.035 billion (\$2.44 per share) in the year ago period. For the year Prudential reported net income of \$4.186 billion (\$10.11 per share) compared to \$4.074 billion (\$9.50 per share) in 2018. After-tax Adjusted Operating Income equaled \$4.845 billion (\$11.69 per share) compared to \$5.019 billion (\$11.69 per share) in 2018. Results were helped by a lower share count. Adjusted book value per share totaled \$101.04, against \$96.06 in the year-ago quarter. At quarter-end Prudential held \$1.551 trillion in assets under management compared to \$1.377 trillion in Q4 2018.

In addition, Prudential declared a \$1.10 quarterly dividend representing a 10.0% year-over-year increase.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$6.27	\$6.41	\$6.27	\$9.67	\$9.21	\$10.04	\$9.13	\$10.58	\$11.69	\$11.69	\$12.50	\$15.21
DPS	\$1.15	\$1.45	\$1.60	\$1.73	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$4.00	\$4.40	\$5.35
Shares¹	484	468	463	461	454	447	430	423	411	411	405	380

If you look at 2007 (when the company was earning \$7.31 and paying out \$1.15) through 2019, Prudential has grown earnings-per-share by about 4.0% per year and the dividend has compounded at a rate of roughly 11.8% per annum.

Moving forward we anticipate earnings growth to be in-line with the company's historical average – coming in at 4% annually over the intermediate-term. Higher interest rates and general economic improvement could be positives for the company's growth prospects. Of course, there are offsetting factors; chief among them being lower rather than higher rates in the short-term. The majority of Prudential's business is in the U.S. and Japan, both of which are mature markets 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.9	8.9	8.7	7.4	8.8	8.3	8.7	10.2	8.6	7.9	7.7	8.5
Avg. Yld.	2.1%	2.5%	2.9%	2.4%	2.5%	2.9%	3.5%	2.8%	3.6%	4.2%	4.6%	4.1%

¹ In millions.

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In the last decade shares of Prudential have traded hands with an average P/E ratio of about 8.5 times earnings. This may seem low compared to your average firm, equating to a starting earnings multiple of 11.8%, but this has been typical of insurers. With shares currently trading at 7.7 times expected earnings, this implies a small valuation tailwind.

The dividend ought to add meaningfully to shareholder returns as well, as it sits above 4.5% and yet only takes up about a third of earnings – leaving ample room for growth. Note the payment was increased 10% to \$1.10 per quarter.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18%	23%	26%	18%	24%	24%	31%	28%	31%	34%	35%	35%

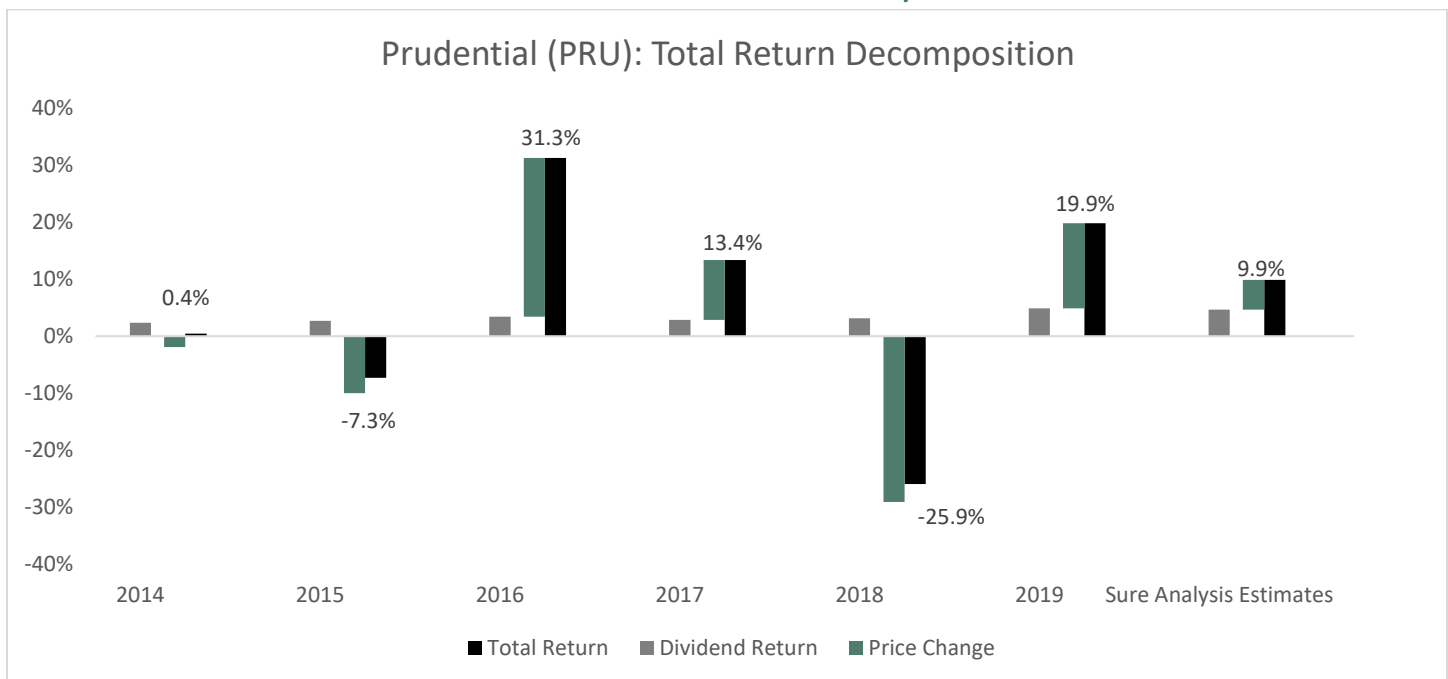
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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 cyclical 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

Shares are up 3% since our last report. Prudential has proven to be a solid business over the years with a variety of positive attributes. We are forecasting 9.9% annual total return potential, stemming from 4% growth, a 4.6% starting dividend yield and a small valuation tailwind. Further, shares trade near 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. With shares trading close to our view of fair value, we are reiterating our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	38217	49085	84847	41461	54105	57119	58779	59689	57570	57243
SG&A Exp.	8309	10605	11094	11011	11807	10912	11779	11915	12967	14520
D&A Exp.	104	290	302	411	631	113	318	222	N/A	
Net Profit	3001	3632	520	-667	1381	5642	4368	7863	4074	4186
Net Margin	7.9%	7.4%	0.6%	-1.6%	2.6%	9.9%	7.4%	13.2%	7.1%	7.3%
Free Cash Flow	6542	12377	20909	8445	19396	13942	14815	13445	N/A	
Income Tax	1243	1515	213	-1058	349	2072	1335	-1438	822	947

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	539.85	620.24	709.24	731.78	766.66	757.26	783.96	831.92	815.08	896.55
Cash & Equivalents	12915	14251	18100	11439	14918	17612	14127	14490	15353	16327
Goodwill & Int.	N/A	3845	3248	3675	2836	2828	2314	1591	1850	1110
Total Liab. (\$B)	506.93	585.40	670.12	695.90	724.31	715.33	737.87	777.58	766.05	832.83
Long-Term Debt	25635	27482	28790	29524	29728	29407	21324	20070	20784	21853
Total Equity	32415	34253	38503	35278	41770	41890	45863	54069	48617	63115
D/E Ratio	0.79	0.80	0.75	0.84	0.71	0.70	0.47	0.37	0.43	0.35

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.6%	0.6%	0.1%	-0.1%	0.2%	0.7%	0.6%	1.0%	0.5%	0.5%
Return on Equity	10.4%	10.9%	1.4%	-1.8%	3.6%	13.5%	10.0%	15.7%	7.9%	7.5%
ROIC	5.5%	6.0%	0.8%	-1.0%	2.0%	7.9%	6.3%	11.1%	5.6%	5.4%
Shares Out.	484	468	463	461	454	447	430	423	411	411
Revenue/Share	80.39	100.44	181.26	89.53	115.68	124.06	131.61	136.90	135.08	139.31
FCF/Share	13.76	25.33	44.67	18.24	41.47	30.28	33.17	30.84	N/A	

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

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