T. Rowe Price Group Inc. (TROW)

Updated April 29th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$27.7 B
Fair Value Price:	$109	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	06/13/20
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date[1]:**	06/28/20
Dividend Yield:	2.7%	**5 Year Price Target**	$139	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	18.4%

Overview & Current Events

T. Rowe Price Group, founded in 1937 and headquartered in Baltimore, MD, is one of the largest publicly traded asset managers. The company provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans and financial intermediaries. T. Rowe Price has a market capitalization of $28 billion and had assets under management of $1.01 trillion as of March 31st, 2019.

On April 28th, 2020 T. Rowe Price reported Q1 2020 results for the period ending March 31st, 2020. For the quarter, ending assets under management (AUM) came in at $1.009 trillion, down -16.4% since the end of 2019 and down -6.7% compared to Q1 2019, as the company saw -$191.9 billion in market depreciation and -$6.0 billion in net client outflows. Net revenue was up 10.2% to $1.463 billion, representing 0.126% of average AUM or roughly 50 basis points on an annualized basis. Adjusted net income equaled $454.3 million compared to $460.6 million In Q1 2019, while adjusted earnings-per-share totaled $1.87, flat with last year's quarter due to a lower share count.

Notably, due to T. Rowe Price's very solid financial footing, the company was able to repurchase 8.3 million shares when its share price fell in March, which is a stark contrast from most firm's trying to preserve liquidity.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.53	$2.92	$3.36	$3.90	$4.55	$4.63	$4.84	$6.13	$7.01	$8.07	***$7.25***	***$9.25***
DPS	$1.08	$1.24	$1.36	$1.52	$1.76	$2.08	$2.16	$2.28	$2.80	$3.04	***$3.60***	***$3.98***
Shares[2]	259	253	257	262	261	250	245	245	238	239	***237***	***215***

T. Rowe Price's earnings, as well as its dividends, have grown substantially over the last decade. While earnings did drop materially during the last financial crisis, the overall record has been quite good. Since 2007 the company has grown earnings-per-share by an average compound rate of 10.6% per annum.

Asset managers like T. Rowe have low variable costs. As a result, higher revenues, driven primarily by increasing assets under management, allow for margin expansion and attractive earnings growth rates. Assets under management grow in two basic ways: increased contributions and higher underlying asset values. While asset values are finicky, the trend is upward over the long-term. On the contribution side, T. Rowe Price's strong past performance is a key selling point and could attract customers going forward. In addition, T. Rowe has another growth lever in the way of share repurchases over time. Despite the ongoing crisis, so far the company has still been repurchasing shares.

With that being said there is a significant and ongoing challenge for traditional asset managers. Namely, the advance of low-cost ETFs, where other asset managers such as Blackrock or Vanguard are much better positioned. This could lead to lower growth rates for T. Rowe Price, as managers are forced to compete on price and reduce management fees. In addition, while Q1 2020 did not show a significant impact from the coronavirus crisis, this is something to watch as it relates to equity prices over time.

Collectively, we are forecasting 5% growth over the intermediate term, coming off a reduced earnings base.

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[1] Estimate

[2] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.8	20.2	18.5	19.3	17.9	16.7	14.7	13.1	15.6	12.4	***16.1***	***15.0***
Avg. Yld.	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	2.6%	2.8%	***2.7%***	***2.9%***

From 2012 - 2019 shares of T. Rowe have traded hands with an average P/E ratio of about 16 times earnings. We believe 15 times earnings is a reasonable starting point, taking into consideration moderate growth potential paired with an excellent balance sheet. With shares currently trading near 16 times earnings, this implies a small valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	43%	42%	40%	39%	39%	45%	45%	37%	40%	38%	***43%***	***43%***

While T. Rowe has put together a solid record, asset managers do not tend to have a large competitive advantage. Fund performance and general customer stickiness help – once you invest with a company you tend to stay invested and the benefits of switching are unknown. However, the "race to the bottom" as it relates to fee's has been and will continue to be an important and ongoing challenge in the industry.

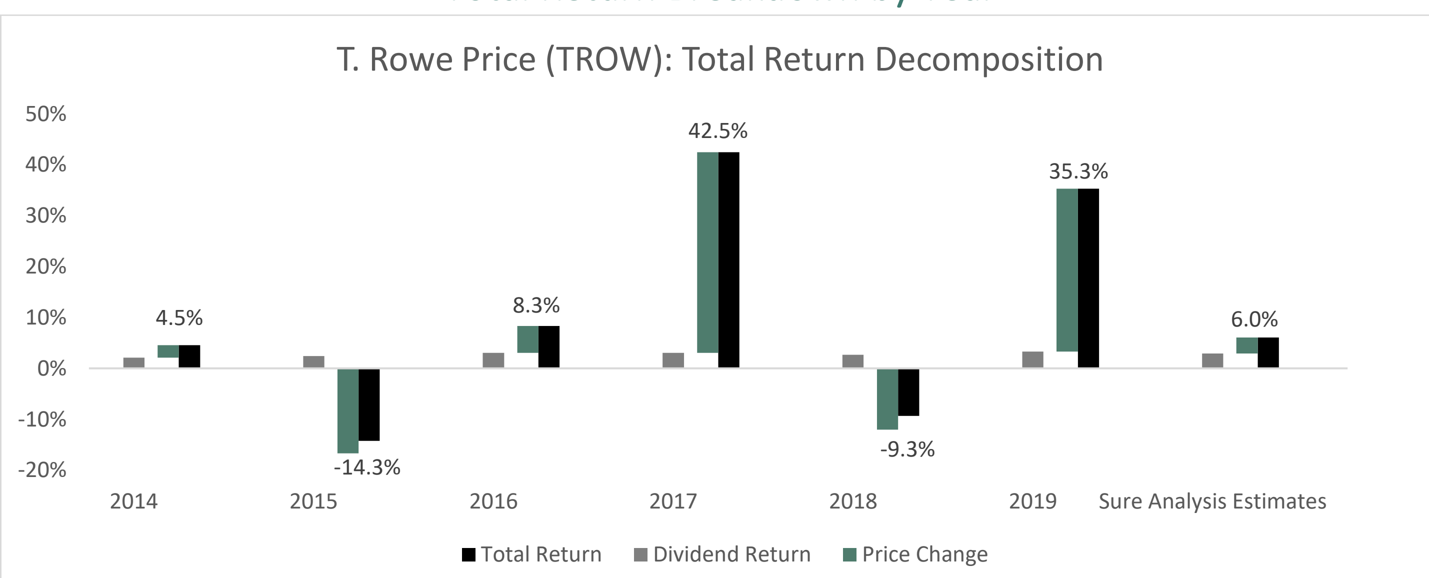
During the last recession T. Rowe posted earnings-per-share of $2.40, $1.82, $1.65 and $2.53 in the 2007 through 2010 stretch. This is instructive, as it shows both the cyclical nature in lesser times along with the ability to bounce back.

Also notable is the company's exceptionally clean balance sheet. As of the most recent quarter T. Rowe held $1.6 billion in cash and $8.6 billion in total assets (55% of which were investments) against $2.2 billion in total liabilities and zero long-term debt.

Final Thoughts & Recommendation

Shares are down -13% since our last report. T. Rowe Price has been a great business, with strong operating metrics for many years. That being said, the focus on lower fees will continue to be a headwind for the industry. Total return potential comes in at 6.0% per annum, stemming from 5% growth, a 2.7% starting dividend yield and the potential for a small valuation headwind. We rate shares as a hold at the current quotation.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2364	2747	3023	3484	3982	4201	4285	4855	5373	5618
Gross Profit	1461	1703	1879	2210	2509	2606	2418	2781	3126	3233
Gross Margin	61.8%	62.0%	62.2%	63.4%	63.0%	62.0%	56.4%	57.3%	58.2%	57.5%
SG&A Exp.	196	206	213	223	220	239	618	723	780	846
D&A Exp.	63	72	81	91	112	126	133	144	160	
Operating Profit	1034	1227	1364	1637	1891	1899	1800	2059	2346	2387
Operating Margin	43.7%	44.7%	45.1%	47.0%	47.5%	45.2%	42.0%	42.4%	43.7%	42.5%
Net Profit	672	773	884	1048	1230	1223	1215	1498	1838	2131
Net Margin	28.4%	28.1%	29.2%	30.1%	30.9%	29.1%	28.4%	30.9%	34.2%	37.9%
Free Cash Flow	615	866	826	1127	1218	1379	22	43	1451	
Income Tax	398	477	552	653	774	779	707	924	616	678

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3642	3770	4203	5033	5644	5107	6225	7535	7689	9330
Cash & Equivalents	813	898	879	1398	1506	1172	1205	1903	1425	1782
Accounts Receivable	308	305	354	399	443	446	455	565	550	647
Goodwill & Int. Ass.	666	666	666	666	666	666	666	666	666	666
Total Liabilities	346	350	357	215	249	345	1216	1711	1565	2228
Accounts Payable	79	83	90	104	143	171	181	216	229	
Long-Term Debt	0	0	0	0	0	0	0	0	0	
Shareholder's Equity	3297	3421	3846	4818	5395	4762	5009	5824	6124	7102
D/E Ratio	0	0	0	0	0	0	0	0	0	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	19.6%	20.9%	22.2%	22.7%	23.0%	22.8%	21.4%	21.8%	24.1%	25.0%
Return on Equity	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%
ROIC	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%
Shares Out.	259	253	257	262	261	250	245	245	250	239
Revenue/Share	8.92	10.43	11.58	13.08	14.89	16.10	17.12	19.81	21.76	23.55
FCF/Share	2.32	3.29	3.16	4.23	4.55	5.29	0.09	0.18	5.88	25.0%

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