Principal Financial Group (PFG)

Updated January 31st, 2021 by Jonathan Weber

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	15.3%	**Market Cap:**	$14B
Fair Value Price:	$68	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/26/21
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.7%	**Dividend Payment Date:**	03/26/21
Dividend Yield:	4.6%	**5 Year Price Target**	$86	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.8%

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, and is headquartered in Des Moines, IA.

Principal Financial Group reported its fourth quarter earnings results on January 28. Principal Financial Group saw its assets under management grow to $810 billion, partially due to rising equity markets during the last couple of months, which boosted Principal Financial's equity AuM. Principal Financial's successful management of the assets of its customers was showcased by the fact that 80% of AuM outperformed their peer average over the last five years, while 74% of AuM hold a Morningstar rating of 4 or 5 stars. The company also saw its Retirement and Income Solutions business do well during the quarter, although the International segment was less profitable during the quarter.

Principal Financial Group generated earnings-per-share of $1.48 during the fourth quarter, which beat the consensus estimate by $0.05. Earnings-per-share were up 5% compared to the earnings-per-share that were created during the previous year's quarter. During 2020, profits were down versus 2019 based on the impact that the coronavirus has global economies, but there was not a steep decline in profitability. Earnings-per-share in 2021 will likely be up again, and current estimates forecast new record profits for the company during the current year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.76	$2.69	$3.55	$4.41	$4.26	$4.55	$5.04	$5.53	$5.58	$4.94	***$6.15***	***$7.85***
DPS	$0.70	$0.78	$0.98	$1.28	$1.50	$1.61	$1.87	$2.13	$2.18	$2.24	***$2.24***	***$3.00***
Shares[1]	301	293	298	299	298	288	289	285	281	277	***272***	***260***

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, as 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, has benefitted from solid assets under management (AuM) growth in the past. A rising number of new customers also helps drive AuM, in addition to market appreciation in normal times. Net inflows and market appreciation allowed Principal Global Investors to report AuM growth during each of the last couple of quarters, except for Q1 of 2020, which was impacted by the coronavirus-caused equity market downturn. 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 most cases in the past. 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, 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.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.3	10.0	11.1	11.2	11.9	10.1	12.8	8.0	10.0	9.7	***8.0***	***11.0***
Avg. Yld.	2.5%	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	3.9%	4.7%	***4.6%***	***3.5%***

Principal Financial Group trades at around 8 times 2021's earnings-per-share estimate 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. We believe that this discount to fair value will result in meaningful multiple expansion tailwinds over the next couple of years. Investors also get a high dividend yield at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25.4%	29.0%	27.6%	29.0%	35.2%	35.4%	37.1%	38.5%	39.1%	45.3%	***36.4%***	***38.2%***

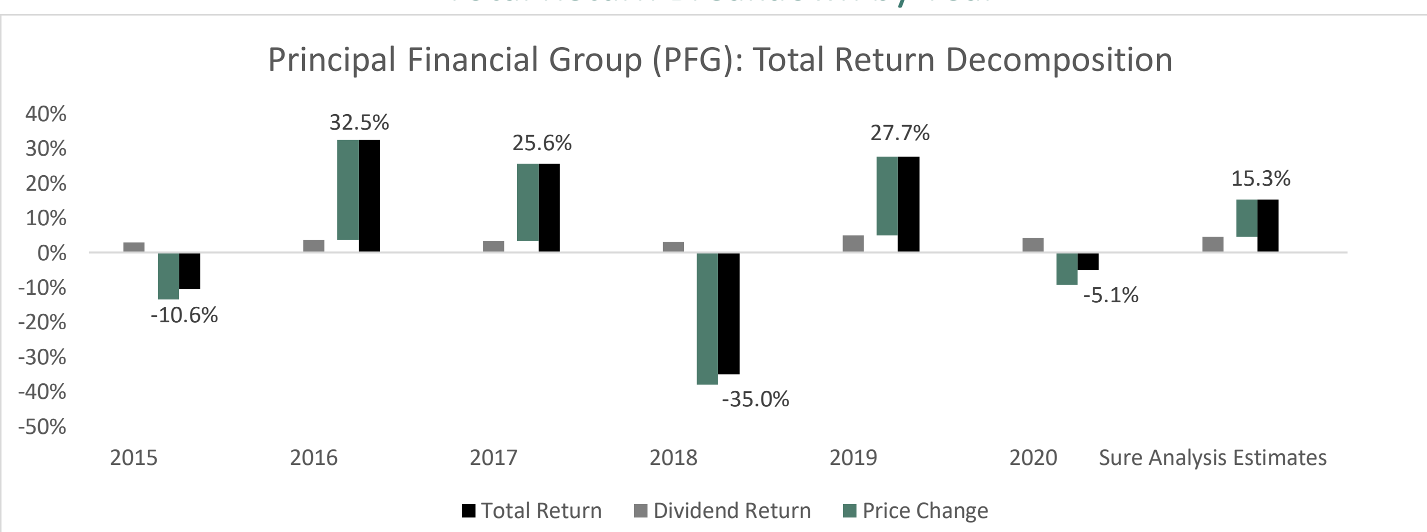
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 50%, which makes us believe that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

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. Profits in 2020 were down slightly, but the company will likely generate record profits this year. Based on current estimates, there is potential for large total returns over the coming years, although volatility could remain high. We rate the stock a buy.

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	9198	8671	9215	9290	10478	11964	12394	14093	14237	16222
SG&A Exp.	2988	2971	2934	3293	3574	3672	3733	3894	4137	4504
D&A Exp.	165	120	132	154	170	193	187	196	205	227
Net Profit	663	638	807	913	1144	1234	1317	2310	1547	1394
Net Margin	7.2%	7.4%	8.8%	9.8%	10.9%	10.3%	10.6%	16.4%	10.9%	8.6%
Free Cash Flow	2770	2656	3042	2162	2967	4241	3703	4023	5064	5361
Income Tax	105	198	135	188	319	178	230	(72)	231	249

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	145631	147362	161830	208191	219087	218660	228014	253941	243036	276088
Cash & Equivalents	1877	2834	4177	2372	1864	2565	2720	2471	2978	2516
Accounts Receivable	1063	1197	1084	1241	1213	1429	1362	1470	1413	1740
Goodwill & Int. Ass.	1180	1373	1458	2559	2331	2368	2346	2384	2415	3481
Total Liab. ($B)	135746	137990	152127	198414	208855	209283	217721	241019	231580	261402
Long-Term Debt	1692	1670	2712	2752	2559	3446	3177	3218	3303	3828
Shareholder's Equity	9728	9018	9683	9684	10184	9312	10227	12849	11390	14618
D/E Ratio	0.17	0.19	0.28	0.28	0.25	0.37	0.31	0.25	0.29	0.26

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.5%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%	1.0%	0.6%	0.5%
Return on Equity	7.5%	6.8%	8.6%	9.4%	11.5%	12.7%	13.5%	20.0%	12.8%	10.7%
ROIC	6.2%	5.6%	6.9%	7.3%	9.0%	9.6%	10.0%	15.6%	10.0%	8.4%
Shares Out.	320	301	293	298	299	298	288	289	285	281
Revenue/Share	28.48	27.30	30.68	31.15	35.08	40.15	42.34	48.08	49.30	57.73
FCF/Share	8.58	8.36	10.13	7.25	9.93	14.23	12.65	13.73	17.54	19.08

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