



# Prudential Financial Inc. (PRU)

Updated February 5<sup>th</sup>, 2021 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$80	<b>5 Year CAGR Estimate:</b>	11.5%	<b>Market Cap:</b>	\$32 B
<b>Fair Value Price:</b>	\$92	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	02/12/21
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.8%	<b>Dividend Payment Date:</b>	03/11/21
<b>Dividend Yield:</b>	5.7%	<b>5 Year Price Target</b>	\$112	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	4.5%

## Overview & Current Events

Prudential Financial, now in business for over 140 years, operates in the United States, Asia, Europe and Latin America, with \$1.7 trillion in assets under management (AUM). 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 \$32 billion market cap company employs approximately 50,000 people.

On February 4<sup>th</sup>, 2021 Prudential released Q4 and full year 2020 results for the period ending December 31<sup>st</sup>, 2020. For the quarter Prudential reported net income of \$819 million or \$2.03 per share compared to \$1.128 billion or \$2.76 in Q4 2019. After-tax adjusted operating income equaled \$1.183 billion or \$2.93 per share compared to \$914 million or \$2.24 per share in Q4 2019.

For the year Prudential reported a net loss of -\$374 million or -\$1.00 per share versus a gain of \$4.186 billion or \$10.11 per share in 2019. However, this included significant investment losses. After-tax adjusted operating income equaled \$4.111 billion or \$10.21 per share compared to \$4.656 billion or \$11.24 per share in 2019.

At quarter-end Prudential held \$1.721 trillion in AUM versus \$1.551 trillion in the year ago period. Prudential's adjusted book value per share equaled \$94.79, down from \$101.04 in 2019.

Prudential also authorized \$1.5 billion in share repurchases for 2021 and declared a \$1.15 quarterly dividend, a 4.5% year-over-year increase.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$6.41	\$6.27	\$9.67	\$9.21	\$10.04	\$9.13	\$10.58	\$11.69	\$11.69	\$10.21	<b>\$11.50</b>	<b>\$14.00</b>
<b>DPS</b>	\$1.45	\$1.60	\$1.73	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$4.00	\$4.40	<b>\$4.60</b>	<b>\$5.60</b>
<b>Shares<sup>1</sup></b>	468	463	461	454	447	430	423	411	399	398	<b>395</b>	<b>365</b>

If you look at 2007 (when the company was earning \$7.31 and paying out \$1.15) through 2019, Prudential grew earnings-per-share by about 4.0% per year. However, 2020 proved to be a down year amid difficult circumstances.

Higher interest rates and general economic improvement could be positives for the company's growth prospects over the long-term. 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.

We are expecting earnings to bounce back in 2021, to go along with a 4% intermediate term growth. Of course, the timing and magnitude of a recovery from the COVID-19 pandemic will continue to be an unknown.

<sup>1</sup> In millions.

Disclosure: This analyst is long the security discussed in this research report.



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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	8.9	8.7	7.4	8.8	8.3	8.7	10.2	8.6	8.0	6.9	7.0	8.0
Avg. Yld.	2.5%	2.9%	2.4%	2.5%	2.9%	3.5%	2.8%	3.6%	4.3%	6.4%	5.7%	5.0%

In the last decade shares of Prudential have traded hands with an average P/E ratio between 8- and 9-times earnings. This may seem low compared to your average firm, but this has been typical of insurers. With shares currently trading at 7 times expected earnings, this implies the potential for a moderate valuation tailwind.

The dividend ought to add meaningfully to shareholder returns as well, as it sits at nearly 6% and yet takes up less than half of earnings – leaving ample room for future growth.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	23%	26%	18%	24%	24%	31%	28%	31%	34%	43%	40%	40%

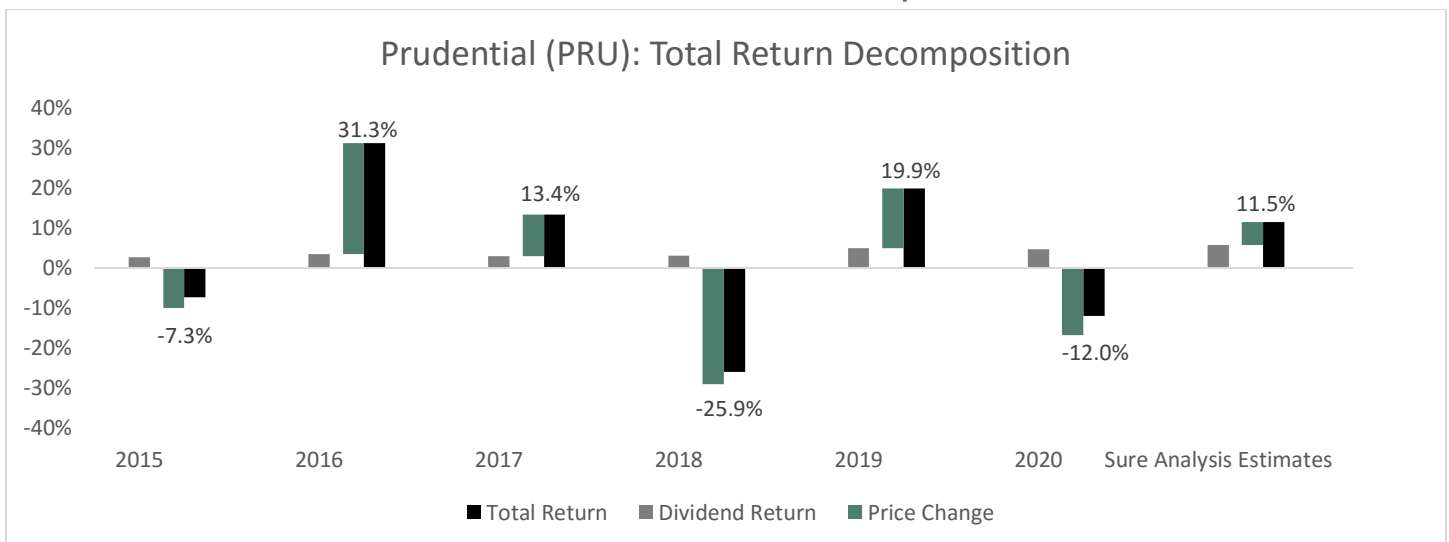
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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 nature 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 25% since our last report. Prudential has proven to be a solid business over the years with a variety of positive attributes. We are forecasting 11.5% annual total return potential, stemming from 4% growth, a 5.7% starting dividend yield and a valuation tailwind. 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. Still, the valuation remains compelling and the security continues to earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	49085	84847	41461	54105	57119	58779	59689	57570	57243	49830
<b>SG&amp;A Exp.</b>	10605	11094	11011	11807	10912	11779	11915	12967	14520	14900
<b>D&amp;A Exp.</b>	290	302	411	631	113	318	222	161	460	---
<b>Net Profit</b>	3632	520	-667	1381	5642	4368	7863	4074	4186	(374)
<b>Net Margin</b>	7.4%	0.6%	-1.6%	2.6%	9.9%	7.4%	13.2%	7.1%	7.3%	(0.8%)
<b>Free Cash Flow</b>	12377	20909	8445	19396	13942	14815	13445	21660	19620	---
<b>Income Tax</b>	1515	213	-1058	349	2072	1335	-1438	822	947	(81)

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets (\$B)</b>	620.24	709.24	731.78	766.66	757.26	783.96	831.92	815.08	896.55	940.7
<b>Cash &amp; Equivalents</b>	14251	18100	11439	14918	17612	14127	14490	15353	16327	13700
<b>Goodwill &amp; Int.</b>	3845	3248	3675	2836	2828	2314	1591	1850	1110	1103
<b>Total Liab. (\$B)</b>	585.40	670.12	695.90	724.31	715.33	737.87	777.58	766.05	832.83	872.5
<b>Long-Term Debt</b>	27482	28790	29524	29728	29407	21324	20070	20784	21853	20950
<b>Total Equity</b>	34253	38503	35278	41770	41890	45863	54069	48617	63115	67420
<b>D/E Ratio</b>	0.80	0.75	0.84	0.71	0.70	0.47	0.37	0.43	0.35	0.31

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	0.6%	0.1%	-0.1%	0.2%	0.7%	0.6%	1.0%	0.5%	0.5%	(0.04%)
<b>Return on Equity</b>	10.9%	1.4%	-1.8%	3.6%	13.5%	10.0%	15.7%	7.9%	7.5%	(0.57%)
<b>ROIC</b>	6.0%	0.8%	-1.0%	2.0%	7.9%	6.3%	11.1%	5.6%	5.4%	(0.43%)
<b>Shares Out.</b>	468	463	461	454	447	430	423	411	399	398
<b>Revenue/Share</b>	100.4	181.26	89.53	115.68	124.06	131.61	136.90	135.08	139.31	125.27
<b>FCF/Share</b>	25.33	44.67	18.24	41.47	30.28	33.17	30.84	50.84	47.77	---

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

### Disclaimer

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