



Prudential Financial Inc. (PRU)

Updated May 7th, 2021 by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---|----------|
| Current Price: | \$106 | 5 Year CAGR Estimate: | 6.9% | Market Cap: | \$42 B |
| Fair Value Price: | \$100 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date¹: | 05/22/21 |
| % Fair Value: | 106% | 5 Year Valuation Multiple Estimate: | -1.1% | Dividend Payment Date¹: | 06/18/21 |
| Dividend Yield: | 4.4% | 5 Year Price Target | \$122 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | D | Retirement Suitability Score: | B | Last Dividend Increase: | 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 company trades with a \$42 billion market capitalization.

On May 4th, 2021 Prudential released Q1 2021 results for the period ending March 31st, 2021. For the quarter Prudential reported net income of \$2.828 billion or \$6.98 per share compared to a loss of -\$271 million or -\$0.70 per share in Q1 2020. However, these figures include significant investment gains and losses. After-tax adjusted operating income equaled \$1.665 billion or \$4.11 per share compared to \$897 million or \$2.22 per share in Q1 2020.

At quarter-end Prudential held \$1.663 trillion in AUM versus \$1.481 trillion in the year ago period. Prudential's adjusted book value per share equaled \$100.49, up from \$99.71 in the year ago period.

The board also added \$0.5 billion to Prudential's share repurchase authorization, bringing the total up to \$2.0 billion.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|---------|--------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$6.41 | \$6.27 | \$9.67 | \$9.21 | \$10.04 | \$9.13 | \$10.58 | \$11.69 | \$11.69 | \$10.21 | \$12.50 | \$15.22 |
| DPS | \$1.45 | \$1.60 | \$1.73 | \$2.17 | \$2.44 | \$2.80 | \$3.00 | \$3.60 | \$4.00 | \$4.40 | \$4.60 | \$5.60 |
| Shares² | 468 | 463 | 461 | 454 | 447 | 430 | 423 | 411 | 399 | 396 | 395 | 365 |

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.

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 | 6.8 | 8.4 | 8.0 |
| Avg. Yld. | 2.5% | 2.9% | 2.4% | 2.5% | 2.9% | 3.5% | 2.8% | 3.6% | 4.3% | 6.4% | 4.4% | 4.6% |

¹ Estimate.

² In millions.

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



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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 8.4 times expected earnings, this implies the potential for a small valuation headwind.

The dividend ought to add to shareholder returns, as it sits at over 4% 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% | 37% | 37% |

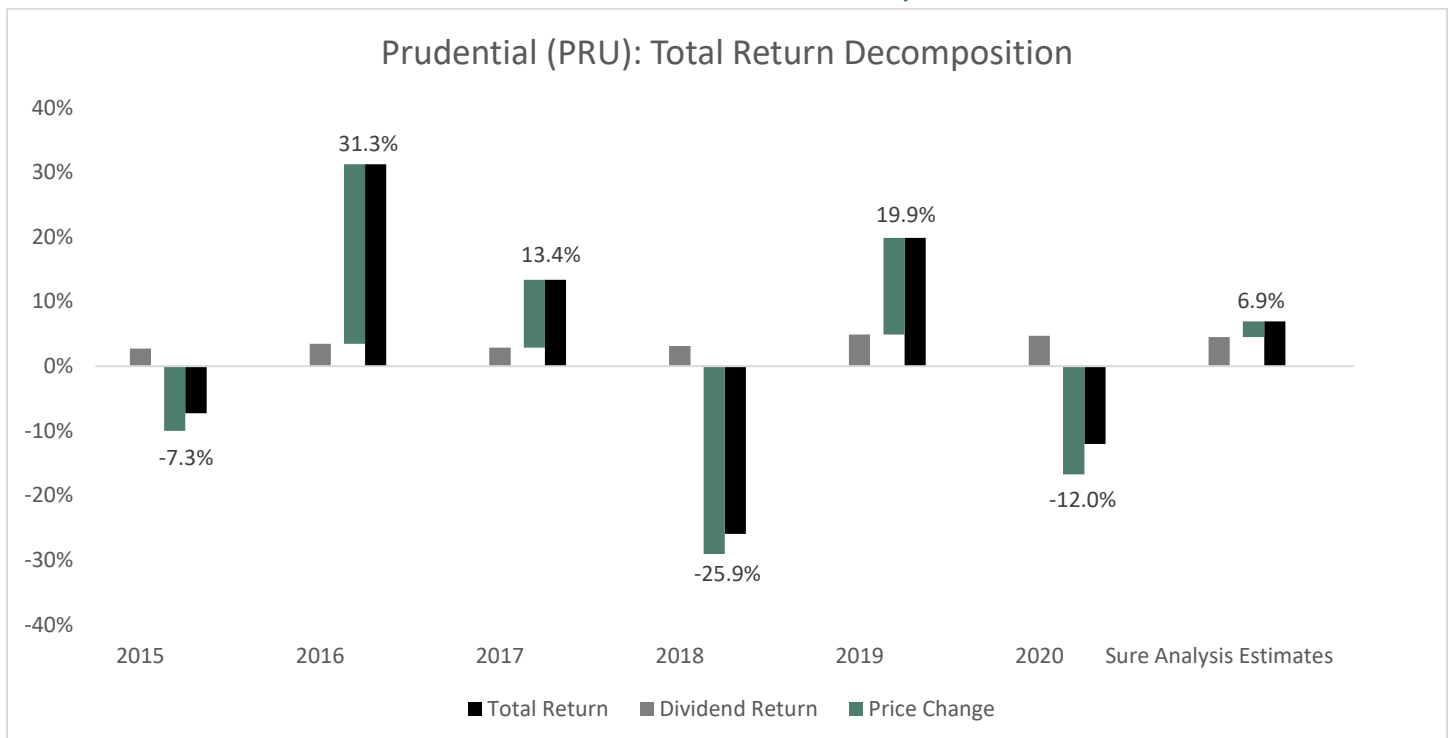
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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 cyclicality 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

After being up 25% in our last report, shares are up another 32% in the last three months. Prudential has proven to be a solid business over the years with a variety of positive attributes. We are forecasting 6.9% annual total return potential, stemming from 4% growth and a 4.4% starting dividend yield, slightly offset by a valuation headwind. 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 completely. Due to the materially higher valuation, shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Total Assets (\$B) | 620.24 | 709.24 | 731.78 | 766.66 | 757.26 | 783.96 | 831.92 | 815.08 | 896.55 | 940.7 |
| Cash & Equivalents | 14251 | 18100 | 11439 | 14918 | 17612 | 14127 | 14490 | 15353 | 16327 | 13700 |
| Goodwill & Int. | 3845 | 3248 | 3675 | 2836 | 2828 | 2314 | 1591 | 1850 | 1110 | 1103 |
| Total Liab. (\$B) | 585.40 | 670.12 | 695.90 | 724.31 | 715.33 | 737.87 | 777.58 | 766.05 | 832.83 | 872.5 |
| Long-Term Debt | 27482 | 28790 | 29524 | 29728 | 29407 | 21324 | 20070 | 20784 | 21853 | 20950 |
| Total Equity | 34253 | 38503 | 35278 | 41770 | 41890 | 45863 | 54069 | 48617 | 63115 | 67420 |
| D/E Ratio | 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 |
|-------------------------|-------|--------|-------|--------|--------|--------|--------|--------|--------|---------|
| Return on Assets | 0.6% | 0.1% | -0.1% | 0.2% | 0.7% | 0.6% | 1.0% | 0.5% | 0.5% | (0.04%) |
| Return on Equity | 10.9% | 1.4% | -1.8% | 3.6% | 13.5% | 10.0% | 15.7% | 7.9% | 7.5% | (0.57%) |
| ROIC | 6.0% | 0.8% | -1.0% | 2.0% | 7.9% | 6.3% | 11.1% | 5.6% | 5.4% | (0.43%) |
| Shares Out. | 468 | 463 | 461 | 454 | 447 | 430 | 423 | 411 | 399 | 398 |
| Revenue/Share | 100.4 | 181.26 | 89.53 | 115.68 | 124.06 | 131.61 | 136.90 | 135.08 | 139.31 | 125.27 |
| FCF/Share | 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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