# Principal Financial Group (PFG)

*Updated August 2nd, 2021 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $63 | **5 Year CAGR Estimate:** | 10.9% | **Market Cap:** | $17B |
| **Fair Value Price:** | $71 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date:** | 08/31/21 |
| **% Fair Value:** | 89% | **5 Year Valuation Multiple Estimate:** | 2.4% | **Dividend Payment Date:** | 09/24/21 |
| **Dividend Yield:** | 4.0% | **5 Year Price Target** | $91 | **Years Of Dividend Growth:** | 14 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | C | **Last Dividend Increase:** | 3.3% |

## 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 second quarter earnings results on July 27. Principal Financial Group saw its assets under management grow to $990 billion, 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 74% of AuM outperformed their peer average over the last five years, while which helps attract new client money for Principal Financial. The company also saw its Retirement and Income Solutions business do well on the back of a substantial increase in revenues.

Principal Financial Group generated earnings-per-share of $1.70 during the second quarter, which beat the consensus estimate easily. Earnings-per-share were up 16% compared to the earnings-per-share that were created during the previous year's quarter. During 2020, profits were down due to the impact that the coronavirus had on global economies. Earnings-per-share in 2021 will be up again, and current estimates forecast new record profits for the company during the current year. The company raised its dividend by 3% in July, to $0.63 per share.

## 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 | ***$6.45*** | ***$8.23*** |
| **DPS** | $0.70 | $0.78 | $0.98 | $1.28 | $1.50 | $1.61 | $1.87 | $2.13 | $2.18 | $2.24 | ***$2.52*** | ***$3.37*** |
| **Shares[1]** | 301 | 293 | 298 | 299 | 298 | 288 | 289 | 285 | 281 | 277 | ***270*** | ***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.

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[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 | ***9.8*** | ***11.0*** |
| **Avg. Yld.** | 2.5% | 2.9% | 2.5% | 2.6% | 3.0% | 3.5% | 2.9% | 4.9% | 3.9% | 4.7% | ***4.0%*** | ***3.7%*** |

Principal Financial Group trades at around 10 times 2021's earnings-per-share estimate right now, which represents a small 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 some 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% | ***39.1%*** | ***41.0%*** |

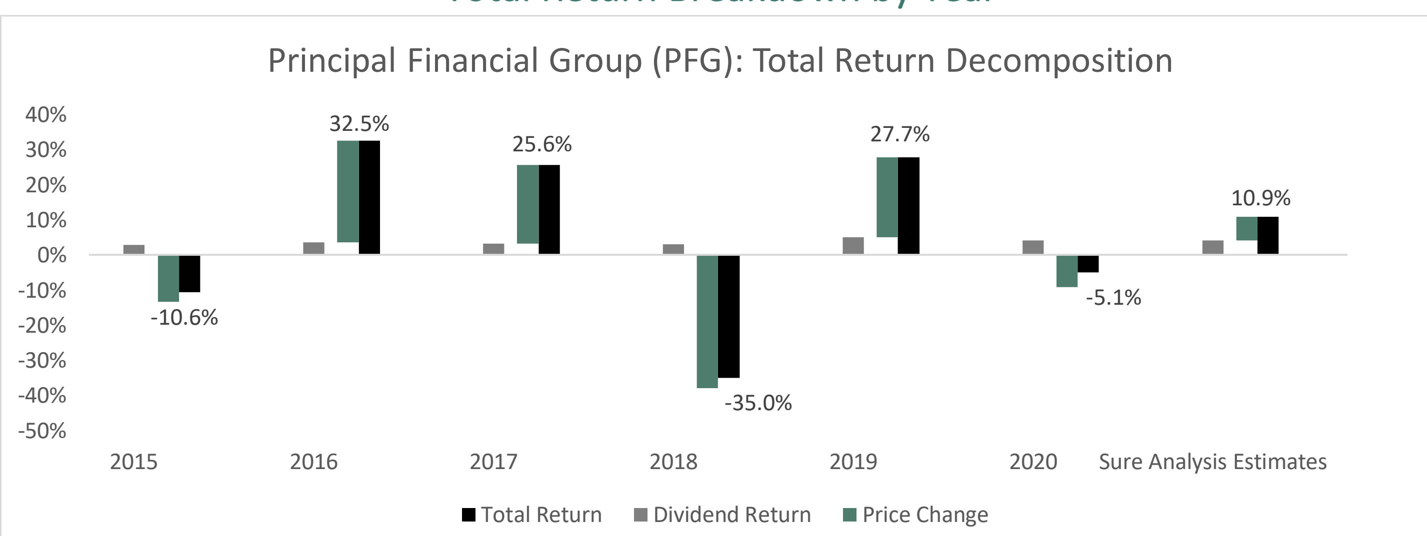
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 50%, which makes us believe that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

## 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 attractive total returns over the coming years, which is why we rate the stock a buy at current prices.

## 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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 8671 | 9215 | 9290 | 10478 | 11964 | 12394 | 14093 | 14237 | 16222 | 14742 |
| SG&A Exp. | 2971 | 2934 | 3293 | 3574 | 3672 | 3733 | 3894 | 4137 | 4504 | 4647 |
| D&A Exp. | 120 | 132 | 154 | 170 | 193 | 187 | 196 | 205 | 227 | 252 |
| Net Profit | 638 | 807 | 913 | 1144 | 1234 | 1317 | 2310 | 1547 | 1394 | 1396 |
| Net Margin | 7.4% | 8.8% | 9.8% | 10.9% | 10.3% | 10.6% | 16.4% | 10.9% | 8.6% | 9.5% |
| Free Cash Flow | 2656 | 3042 | 2162 | 2967 | 4241 | 3703 | 4023 | 5064 | 5361 | 3630 |
| Income Tax | 198 | 135 | 188 | 319 | 178 | 230 | (72) | 231 | 249 | 265 |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 147362 | 161830 | 208191 | 219087 | 218660 | 228014 | 253941 | 243036 | 276088 | 296628 |
| Cash & Equivalents | 2834 | 4177 | 2372 | 1864 | 2565 | 2720 | 2471 | 2978 | 2516 | 2850 |
| Accounts Receivable | 1197 | 1084 | 1241 | 1213 | 1429 | 1362 | 1470 | 1413 | 1740 | 1724 |
| Goodwill & Int. Ass. | 1373 | 1458 | 2559 | 2331 | 2368 | 2346 | 2384 | 2415 | 3481 | 3434 |
| Total Liab. | 137990 | 152127 | 198414 | 208855 | 209283 | 217721 | 241019 | 231580 | 261402 | 280010 |
| Long-Term Debt | 1670 | 2712 | 2752 | 2559 | 3446 | 3177 | 3218 | 3303 | 3828 | 4364 |
| Shareholder's Equity | 9018 | 9683 | 9684 | 10184 | 9312 | 10227 | 12849 | 11390 | 14618 | 16559 |
| D/E Ratio | 0.19 | 0.28 | 0.28 | 0.25 | 0.37 | 0.31 | 0.25 | 0.29 | 0.26 | 0.26 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 0.4% | 0.5% | 0.5% | 0.5% | 0.6% | 0.6% | 1.0% | 0.6% | 0.5% | 0.5% |
| Return on Equity | 6.8% | 8.6% | 9.4% | 11.5% | 12.7% | 13.5% | 20.0% | 12.8% | 10.7% | 9.0% |
| ROIC | 5.6% | 6.9% | 7.3% | 9.0% | 9.6% | 10.0% | 15.6% | 10.0% | 8.4% | 7.1% |
| Shares Out. | 301 | 293 | 298 | 299 | 298 | 288 | 289 | 285 | 281 | 277 |
| Revenue/Share | 27.30 | 30.68 | 31.15 | 35.08 | 40.15 | 42.34 | 48.08 | 49.30 | 57.73 | 53.30 |
| FCF/Share | 8.36 | 10.13 | 7.25 | 9.93 | 14.23 | 12.65 | 13.73 | 17.54 | 19.08 | 13.12 |

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