



Prudential Financial Inc. (PRU)

Updated August 8th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$105	5 Year CAGR Estimate:	7.6%	Market Cap:	\$41 B
Fair Value Price:	\$108	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	08/24/21
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date¹:	09/17/21
Dividend Yield:	4.4%	5 Year Price Target	\$125	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 \$41 billion market capitalization.

On August 3rd, 2021, Prudential released Q2 2021 results for the period ending June 30th, 2021. For the quarter Prudential reported net income of \$2.158 billion or \$5.40 per share compared to a loss of -\$2.409 billion or -\$6.12 per share in Q2 2020. However, these figures include significant investment gains and losses. After-tax adjusted operating income equaled \$1.514 billion or \$3.79 per share compared to \$740 million or \$1.85 per share in Q2 2020.

At quarter-end Prudential held \$1.73 trillion in AUM versus \$1.605 trillion in the year ago period. Prudential's adjusted book value per share equaled \$104.39, up from \$92.07 in the year ago period.

The board once again added \$0.5 billion to Prudential's share repurchase authorization, bringing the total to \$2.5 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	\$13.50	\$15.65
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	360

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 materially in 2021, to go along with a 3% 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	7.8	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%	4.5%

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 7.8 times expected earnings, this implies the potential for a small valuation tailwind.

The dividend ought to add to shareholder returns, as it sits at over 4% and yet makes up around a third of earnings.

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%	34%	36%

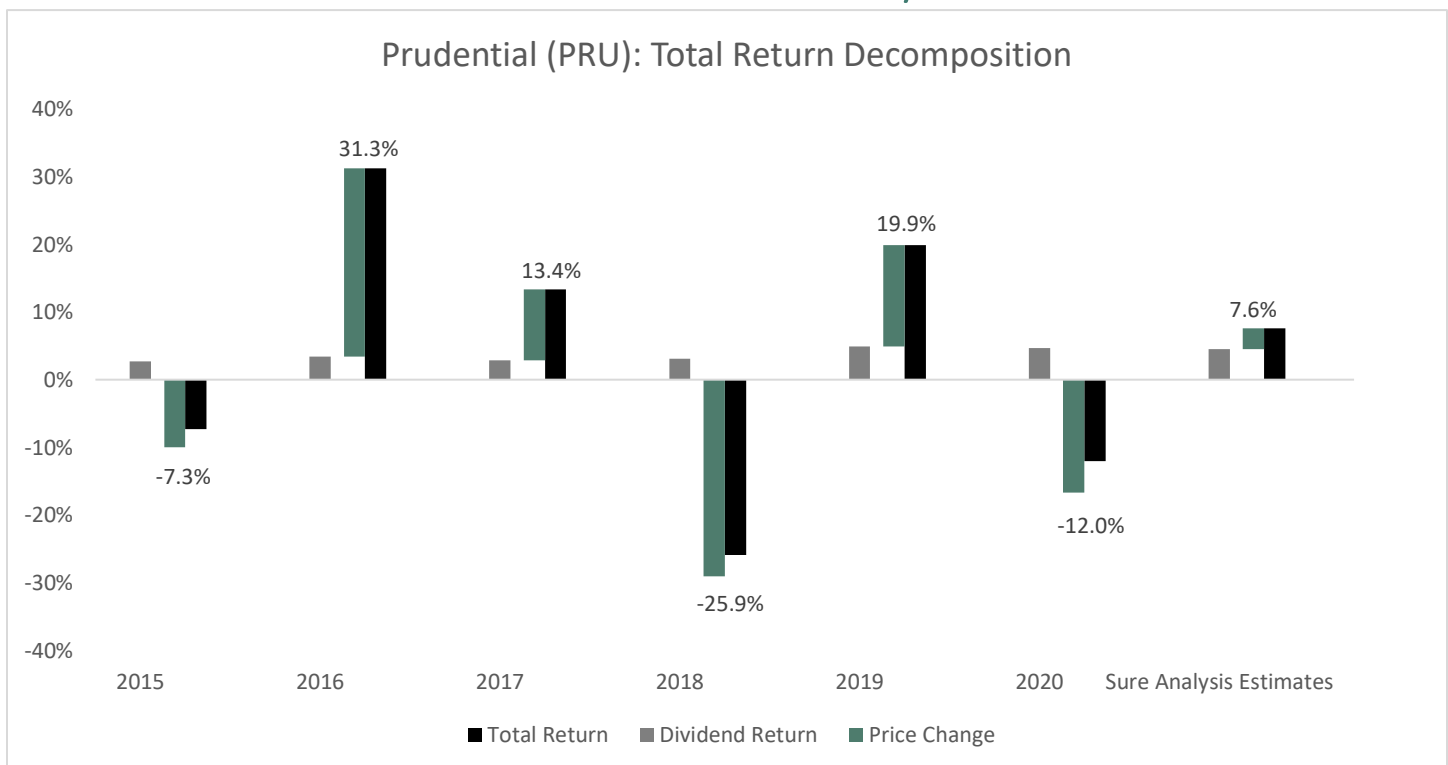
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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

After being up 25% and 32% in our two previous reports, shares are down slightly 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 7.6% annual total return potential, stemming from 3% growth, a 4.4% starting dividend yield and a small 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 completely. 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.

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