Principal Financial Group (PFG)

Updated February 28th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$19 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/09/22
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	03/25/22
Dividend Yield:	3.7%	**5 Year Price Target**	$95	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.6%

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 February 7. Principal Financial Group saw its assets under management grow to $550 billion at PGI, which was up 9% compared to the previous year's quarter. Principal Financial's successful management of the assets of its customers was showcased by the fact that 82% of AuM outperformed their peer average over the last five years, 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 9% adjusted revenue growth rate compared to the previous year's quarter.

Principal Financial Group generated earnings-per-share of $1.85 during the fourth quarter, which beat the consensus estimate easily, by $0.20. Earnings-per-share were up 25% compared to the previous year's quarter on an adjusted basis. During 2020, profits were down due to the impact that the coronavirus had on global economies, but Principal Financial Group saw its earnings-per-share rise to a new record level in 2021. Current forecasts see Principal Financial earn marginally more in 2022, but growth will not be on par with what we saw in 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.69	$3.55	$4.41	$4.26	$4.55	$5.04	$5.53	$5.58	$4.94	$6.77	***$6.80***	***$8.68***
DPS	$0.78	$0.98	$1.28	$1.50	$1.61	$1.87	$2.13	$2.18	$2.24	$2.44	***$2.56***	***$3.43***
Shares[1]	293	298	299	298	288	289	285	281	277	269	***260***	***240***

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

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.0	11.1	11.2	11.9	10.1	12.8	8.0	10.0	9.7	10.6	***10.3***	***11.0***
Avg. Yld.	2.9%	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	3.9%	4.7%	3.4%	***3.7%***	***3.6%***

Principal Financial Group trades at 10.3 times 2022's earnings-per-share estimate right now, which represents a 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. The dividend yield of 3.7% provides additional total return tailwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29.0%	27.6%	29.0%	35.2%	35.4%	37.1%	38.5%	39.1%	45.3%	36.0%	***37.6%***	***39.5%***

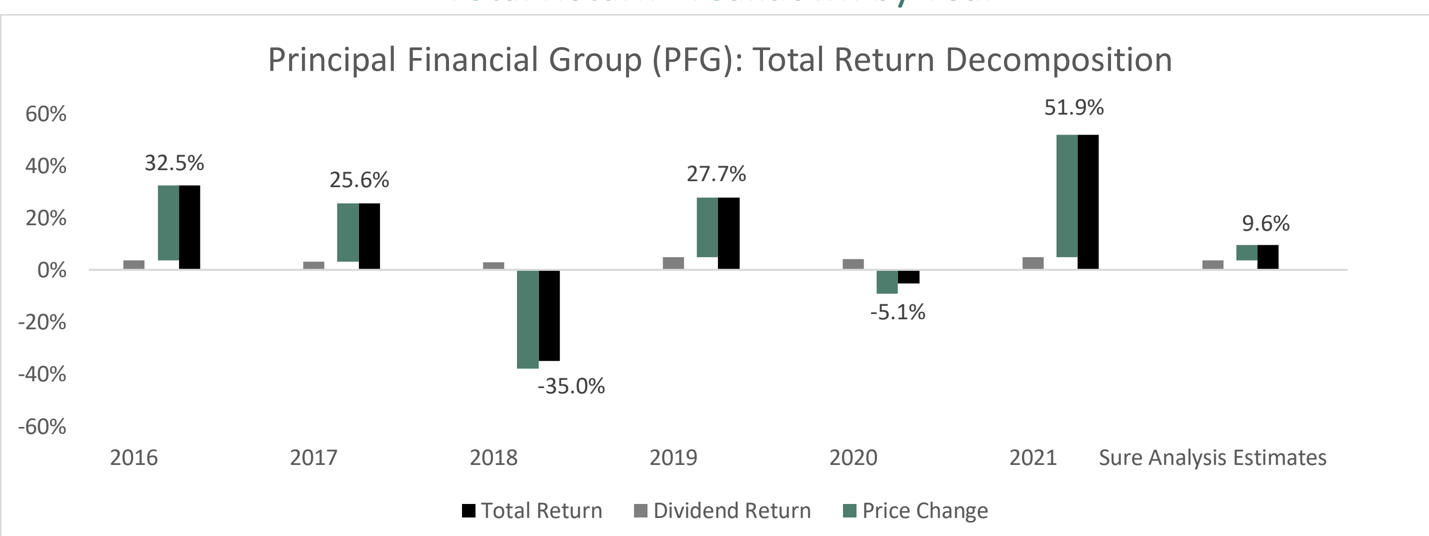
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 50%, which makes us believe that 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 recovered strongly in 2021. Based on current estimates, there is potential for attractive total returns over the coming years, which is why we rate Principal Financial Group a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	9,215	9,290	10,478	11,964	12,394	14,093	14,237	16,222	14,742	14,263
D&A Exp.	132	154	170	193	187	196	205	227	252	275
Net Profit	807	913	1,144	1,234	1,317	2,310	1,547	1,394	1,396	1,711
Net Margin	8.8%	9.8%	10.9%	10.3%	10.6%	16.4%	10.9%	8.6%	9.5%	12.0%
Free Cash Flow	3,042	2,162	2,967	4,241	3,703	4,023	5,064	5,361	3,630	3,089
Income Tax	135	188	319	178	230	(72)	231	249	265	326

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	162	208	219	219	228	254	243	276	297	305
Cash & Equivalents	4,177	2,372	1,864	2,565	2,720	2,471	2,978	2,516	2,850	2,332
Accounts Receivable	1,084	1,241	1,213	1,429	1,362	1,470	1,413	1,740	1,724	1,842
Goodwill & Int. Ass.	1,458	2,559	2,331	2,368	2,346	2,384	2,415	3,481	3,434	3,228
Total Liab. ($B)	152	198	209	209	218	241	232	261	280	289
Long-Term Debt	2,712	2,752	2,559	3,446	3,177	3,218	3,303	3,828	4,364	4,360
Shareholder's Equity	9,683	9,684	10,184	9,312	10,227	12,849	11,390	14,618	16,559	16,069
LTD/E Ratio	0.28	0.28	0.25	0.37	0.31	0.25	0.29	0.26	0.26	0.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.5%	0.5%	0.5%	0.6%	0.6%	1.0%	0.6%	0.5%	0.5%	0.6%
Return on Equity	8.6%	9.4%	11.5%	12.7%	13.5%	20.0%	12.8%	10.7%	9.0%	10.5%
ROIC	6.9%	7.3%	9.0%	9.6%	10.0%	15.6%	10.0%	8.4%	7.1%	8.3%
Shares Out.	293	298	299	298	288	289	285	281	277	269
Revenue/Share	30.68	31.15	35.08	40.15	42.34	48.08	49.30	57.73	53.30	52.26
FCF/Share	10.13	7.25	9.93	14.23	12.65	13.73	17.54	19.08	13.12	11.32

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