



# Prudential Financial Inc. (PRU)

Updated February 13<sup>th</sup>, 2023, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$104	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$38 B
<b>Fair Value Price:</b>	\$100	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/21/23
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	03/16/23
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$116	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Prudential Financial, now in business for over 140 years, operates in the United States, Asia, Europe and Latin America, with \$1.4 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. Businesses, International Businesses and Corporate & Other. The company trades with a \$38 billion market capitalization.

On February 8<sup>th</sup>, 2023, Prudential declared a \$1.25 quarterly dividend, marking a 4.2% increase.

On February 7<sup>th</sup>, 2023, Prudential reported fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. The company reported a net loss of \$558 million or -\$1.53 per share compared to net income of \$1.21 billion or \$3.13 per share in Q4 2021. After-tax operating income equaled \$907 million or \$2.42 per share compared to \$1.23 billion or \$3.18 per share in Q4 2021. For the year, after-tax adjusted income equaled \$3.59 billion or \$9.46 per share compared to \$5.77 billion of \$14.58 in 2021.

At quarter-end, Prudential held \$1.377 trillion in AUM versus \$1.742 trillion in the year ago period. Prudential's adjusted book value per share equaled \$99.22, down from \$108.72 in the year ago period.

Prudential is expected to earn \$12.46 per share in 2023. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$9.67	\$9.21	\$10.04	\$9.13	\$10.58	\$11.69	\$11.69	\$10.21	\$14.58	\$9.46	<b>\$12.46</b>	<b>\$14.44</b>
<b>DPS</b>	\$1.73	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$4.00	\$4.40	\$4.60	\$4.80	<b>\$5.00</b>	<b>\$6.08</b>
<b>Shares<sup>1</sup></b>	461	454	447	430	423	411	399	396	390	369	<b>369</b>	<b>360</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. Results in 2020 proved to be a down year amid difficult circumstances; however, the bottom-line bounced back dramatically in 2021, before declining once again last year.

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 expect earnings to grow in 2023 to go along with a 3% intermediate term growth.

<sup>1</sup> In millions.

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	7.4	8.8	8.3	8.7	10.2	8.6	8.0	6.8	7.1	10.5	8.3	8.0
Avg. Yld.	2.4%	2.5%	2.9%	3.5%	2.8%	3.6%	4.3%	6.4%	4.6%	4.8%	4.8%	5.3%

Shares of Prudential are relatively unchanged since our November 5<sup>th</sup>, 2022 report. 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. We believe fair value to be closer to 8 times earnings. With shares currently trading at 8.3 times expected earnings, this implies the potential for a small valuation headwind. Multiple contraction could reduce annual returns by 0.8% through 2028.

The dividend ought to add to shareholder returns, as it sits at 4.6% and makes up less than half of earnings.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	24%	24%	31%	28%	31%	34%	43%	32%	51%	40%	42%

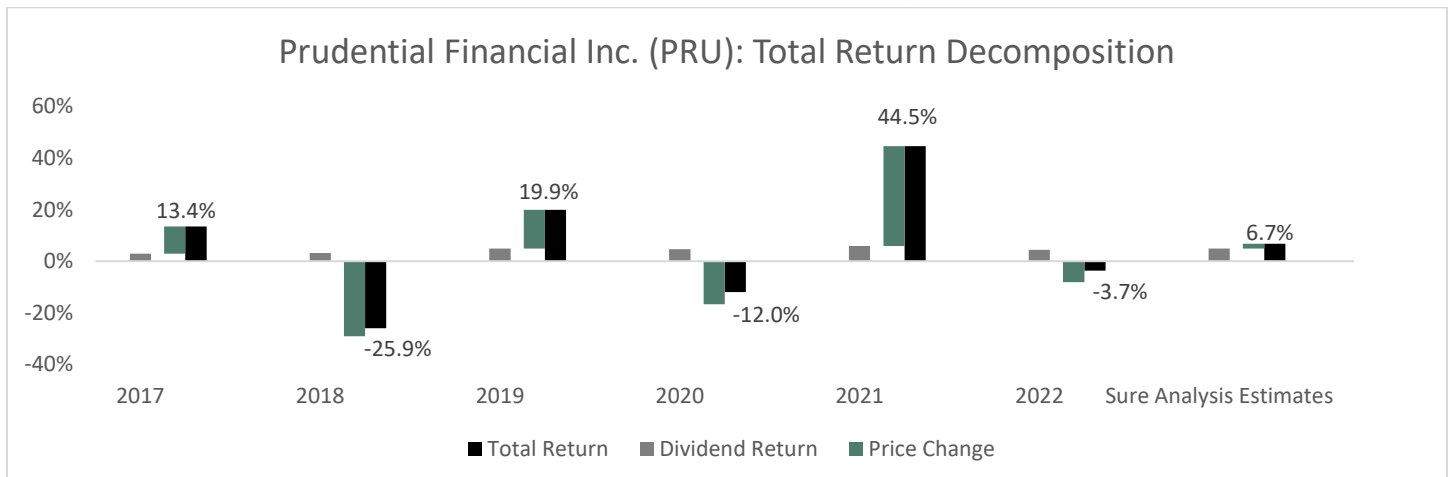
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

During the Great 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 Great Recession, dilutive activity was not excessive.

## Final Thoughts & Recommendation

Prudential has proven to be a solid business over the years with a variety of positive attributes. We are forecasting 6.7% annual total return potential, up from our prior estimate of 2.0%. Our estimate stems from 3% earnings growth and a 4.8% starting dividend yield, offset by a small headwind from multiple compression. 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. We have raised our five-year price target \$27 to \$116 due to EPS estimates. Prudential now earns a hold recommendation due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	41461	54105	57119	58779	59689	57570	57243	49830	61410	55490
<b>SG&amp;A Exp.</b>	11011	11807	10912	11779	11915	12967	14520	14900	13420	12585
<b>D&amp;A Exp.</b>	411	631	113	318	222	161	460	---	---	
<b>Net Profit</b>	-667	1381	5642	4368	7863	4074	4186	(374)	7724	(1,438)
<b>Net Margin</b>	-1.6%	2.6%	9.9%	7.4%	13.2%	7.1%	7.3%	(0.8%)	12.6%	-2.6%
<b>Free Cash Flow</b>	8445	19396	13942	14815	13445	21660	19620	---	---	
<b>Income Tax</b>	-1058	349	2072	1335	-1438	822	947	(81)	1674	(370)

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	731.78	766.66	757.26	783.96	831.92	815.08	896.55	940.7	937.6	690
<b>Cash &amp; Equivalents</b>	11439	14918	17612	14127	14490	15353	16327	13700	12890	17251
<b>Goodwill &amp; Int.</b>	3675	2836	2828	2314	1591	1850	1110	1103	771	595
<b>Total Liab. (\$B)</b>	695.90	724.31	715.33	737.87	777.58	766.05	832.83	872.5	875	673
<b>Long-Term Debt</b>	29524	29728	29407	21324	20070	20784	21853	20950	19620	21057
<b>Total Equity</b>	35278	41770	41890	45863	54069	48617	63115	67420	61880	16250
<b>LTD/E Ratio</b>	0.84	0.71	0.70	0.47	0.37	0.43	0.35	0.31	0.32	1.30

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	-0.1%	0.2%	0.7%	0.6%	1.0%	0.5%	0.5%	-0.04%	0.8%	-0.2%
<b>Return on Equity</b>	-1.8%	3.6%	13.5%	10.0%	15.7%	7.9%	7.5%	-0.57%	12.0%	-3.7%
<b>ROIC</b>	-1.0%	2.0%	7.9%	6.3%	11.1%	5.6%	5.4%	-0.43%	9.0%	-2.4%
<b>Shares Out.</b>	461	454	447	430	423	411	399	398	390	369
<b>Revenue/Share</b>	89.53	115.68	124.06	131.61	136.90	135.08	139.31	125.27	157.42	148.09
<b>FCF/Share</b>	18.24	41.47	30.28	33.17	30.84	50.84	47.77	---	---	-0.2%

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

### Disclaimer

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