Principal Financial Group (PFG)

Updated June 1st, 2023 by Jonathan Weber

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$15B
Fair Value Price:	$74	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/31/23
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	06/30/23
Dividend Yield:	3.9%	**5 Year Price Target**	$94	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 revenues of $3.44 billion for its fiscal first quarter. Principal Financial Group saw its assets under management increase to $660 billion, which does not include another $840 billion of assets under administration. AuM increased due to the equity market recovery during the quarter. Principal Financial's successful management of the assets of its customers nevertheless continued, as 71% of AuM outperformed their peer average over the last five years, which should help attract new client money for Principal Financial in the long term. The company saw its Retirement and Income Solutions business experience a 11% revenue decline on a year-over-year basis.

Principal Financial Group generated earnings-per-share of $1.48 during the first quarter, which missed the consensus estimate marginally, by $0.01. Earnings-per-share were down 2% compared to the previous year's quarter on an adjusted basis. During 2021, profits rose to a new record level, but 2022 was a slightly worse year as the company was negatively impacted by an equity market downturn that hurt its assets under management and thus its fees. It is expected that 2023 will be a slightly stronger year for the company.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.55	$4.41	$4.26	$4.55	$5.04	$5.53	$5.58	$4.94	$6.77	$6.66	***$6.70***	***$8.55***
DPS	$0.98	$1.28	$1.50	$1.61	$1.87	$2.13	$2.18	$2.24	$2.44	$2.56	***$2.56***	***$3.43***
Shares[1]	298	299	298	288	289	285	281	277	269	249	***230***	***200***

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

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.1	11.2	11.9	10.1	12.8	8.0	10.0	9.7	10.6	12.6	***9.7***	***11.0***
Avg. Yld.	2.5%	2.6%	3.0%	3.5%	2.9%	4.9%	3.9%	4.7%	3.4%	3.0%	***3.9%***	***3.6%***

Principal Financial Group trades at slightly less than 10 times 2023'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 never traded at an especially high valuation. We believe that this discount to fair value will result in multiple expansion tailwinds over the next couple of years. The dividend yield of 3.9% provides solid income for investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27.6%	29.0%	35.2%	35.4%	37.1%	38.5%	39.1%	45.3%	36.0%	38.4%	***38.2%***	***40.1%***

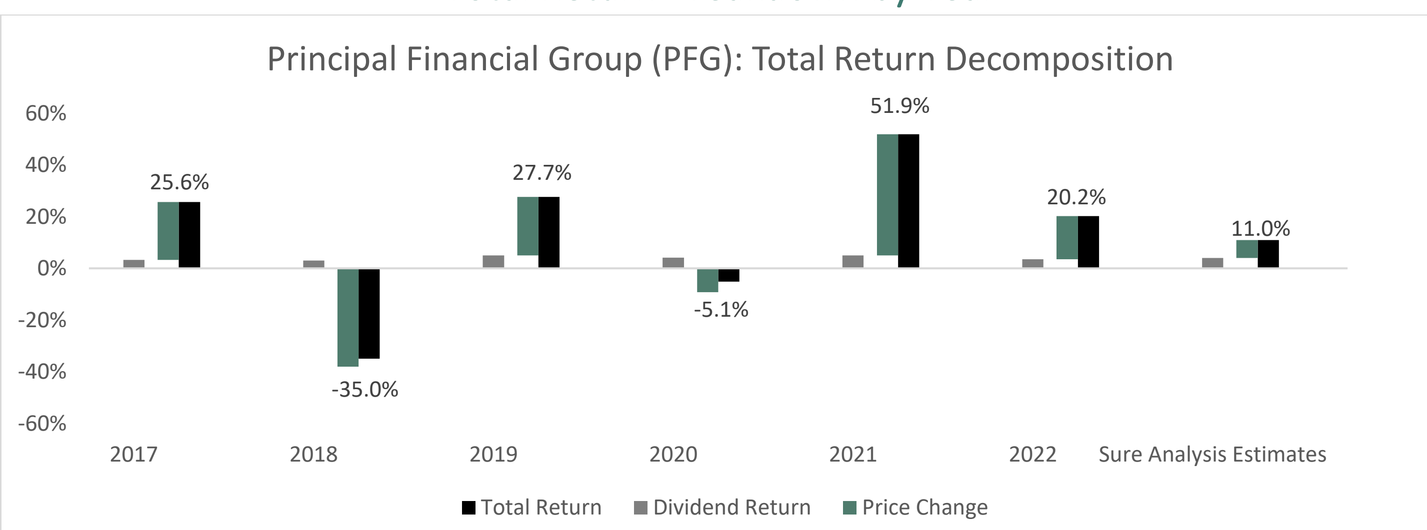
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 40%, which makes us believe that 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 and dividend growth 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. This is also shown by the fact that earnings-per-share hit a new record during the pandemic. Based on current estimates, the total return outlook over the coming years is compelling, which is why we rate Principal Financial Group a buy right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,290	10,478	11,964	12,394	14,093	14,237	16,222	14,742	14,263	17,492
D&A Exp.	154	170	193	187	196	205	227	252	275	296
Net Profit	913	1,144	1,234	1,317	2,310	1,547	1,394	1,396	1,711	4,812
Net Margin	9.8%	10.9%	10.3%	10.6%	16.4%	10.9%	8.6%	9.5%	12.0%	27.5%
Free Cash Flow	2,162	2,967	4,241	3,703	4,023	5,064	5,361	3,630	3,089	3,057
Income Tax	188	319	178	230	(72)	231	249	265	326	1,208

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	208	219	219	228	254	243	276	297	305	292
Cash & Equivalents	2,372	1,864	2,565	2,720	2,471	2,978	2,516	2,850	2,332	4,848
Accounts Receivable	1,241	1,213	1,429	1,362	1,470	1,413	1,740	1,724	1,842	26,313
Goodwill & Int. Ass.	2,559	2,331	2,368	2,346	2,384	2,415	3,481	3,434	3,228	3,132
Total Liab. ($B)	198	209	209	218	241	232	261	280	289	281
Long-Term Debt	2,752	2,559	3,446	3,177	3,218	3,303	3,828	4,364	4,360	4,078
Shareholder's Equity	9,684	10,184	9,312	10,227	12,849	11,390	14,618	16,559	16,069	10,002
LTD/E Ratio	0.28	0.25	0.37	0.31	0.25	0.29	0.26	0.26	0.27	0.41

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	0.5%	0.6%	0.6%	1.0%	0.6%	0.5%	0.5%	0.6%	1.6%
Return on Equity	9.4%	11.5%	12.7%	13.5%	20.0%	12.8%	10.7%	9.0%	10.5%	36.9%
ROIC	7.3%	9.0%	9.6%	10.0%	15.6%	10.0%	8.4%	7.1%	8.3%	27.3%
Shares Out.	298	299	298	288	289	285	281	277	269	249
Revenue/Share	31.15	35.08	40.15	42.34	48.08	49.30	57.73	53.30	52.26	68.51
FCF/Share	7.25	9.93	14.23	12.65	13.73	17.54	19.08	13.12	11.32	11.97

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