



Jackson Financial Inc. (JXN)

Updated October 24th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	14.8%	Market Cap:	\$3.28 B
Fair Value Price:	\$41	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	11/30/2023
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	12/15/2023
Dividend Yield:	6.3%	5 Year Price Target	\$64	Years Of Dividend Growth:	2
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Jackson Financial Inc. (JXN) primarily focuses on offering annuity products to retail investors in the United States. Operating in three segments, the company provides a range of retirement income and savings options. The Institutional Products segment includes traditional investment contracts and funding agreements. The Closed Life and Annuity Blocks segment offers various insurance products. The company distributes its offerings through a diverse network of financial intermediaries.

On August 8th, 2023, the company announced results for the second quarter of 2023. Jackson Financial reported Q2 Non-GAAP EPS of \$3.34, missing estimates by \$0.15. The company reported revenues of \$1.6 billion for the quarter, up 1.01% year-over-year. Jackson Financial's reported net income of \$1.2 billion is impressive, with robust earnings per share at \$14.21. However, relying on market risk benefits and hedging results to achieve this income is a potential risk, as these factors can be unpredictable. The 9% increase in total annuity account value to \$227 billion indicates growth, primarily tied to surging equity markets, which pose vulnerability to market fluctuations.

Jackson Financial's estimated Risk-Based Capital (RBC) ratio for Q2 2023, within the 425-500% target range, indicates strong capital adequacy. A concerning trend is the decrease in statutory total adjusted capital (TAC), dropping from \$4.7 billion in Q1 2023 to \$3.8 billion due to hedging losses and reserve restrictions. Despite this, a decline in required capital, attributed to equity market growth and rising interest rates, offset the TAC reduction. Holding company assets, including a substantial cash reserve, provides a cushion for future financial challenges. The management's efficient pre-funding of senior debt maturing in November 2023 suggests prudent financial planning. Finally, the management maintains its capital return target at \$450 to \$550 million, reflecting year-over-year revenue and margin stability for 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	\$33.69	\$64.23	\$13.78	\$21.19
DPS	---	---	---	---	---	---	---	---	\$0.50	\$2.20	\$2.48	\$3.48
Shares	---	---	---	---	---	---	---	---	94.5	88.7	83.3	60.7

Jackson Financial's net income for Q2 2023 at \$1.2 billion, compared to \$3.3 billion in the same period last year, raises concerns. The significant drop is attributed to a reduction in net hedging gain, influenced by equity market performance and interest rate movements. Adjusted operating earnings declined to \$283 million due to increased expenses, lower spread income, and a loss on operating derivatives. The negative impact of private equity underperformance and reinsurance credit losses adds to these challenges. Despite these results, total common shareholders' equity and adjusted book value have decreased since year-end 2022, primarily due to non-operating hedging losses. This trend requires vigilance to restore financial strength.

In line with the company's guidance and high-interest rate environment for the JXN, we expect the company to post EPS of \$13.78 in 2023. We estimate an EPS growth of 9% over the next five years, leading to our estimated EPS of \$21.19 by 2028. Moreover, the company has a solid record of paying dividends despite operating in a matured sector, as Jackson Financial has paid an increasing dividend for the past two years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 7%, leading to a dividend of \$3.48 in 2028.

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	2023	2028
Avg. P/E	---	---	---	---	---	---	---	---	5.9	5.2	2.8	3.0
Avg. Yld.	---	---	---	---	---	---	---	---	1.6%	6.2%	6.3%	5.5%

The financial services provider trades at a forward P/E of 2.8, considerably lower than its two-year average P/E of 5.6. Even though the increasing registered index-linked annuity and an uptick in annuity account value will benefit the company in the near term, we assign a P/E of 3.0 to the stock, which is a fair reflection of its overvaluation, suggesting a target price of \$64 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

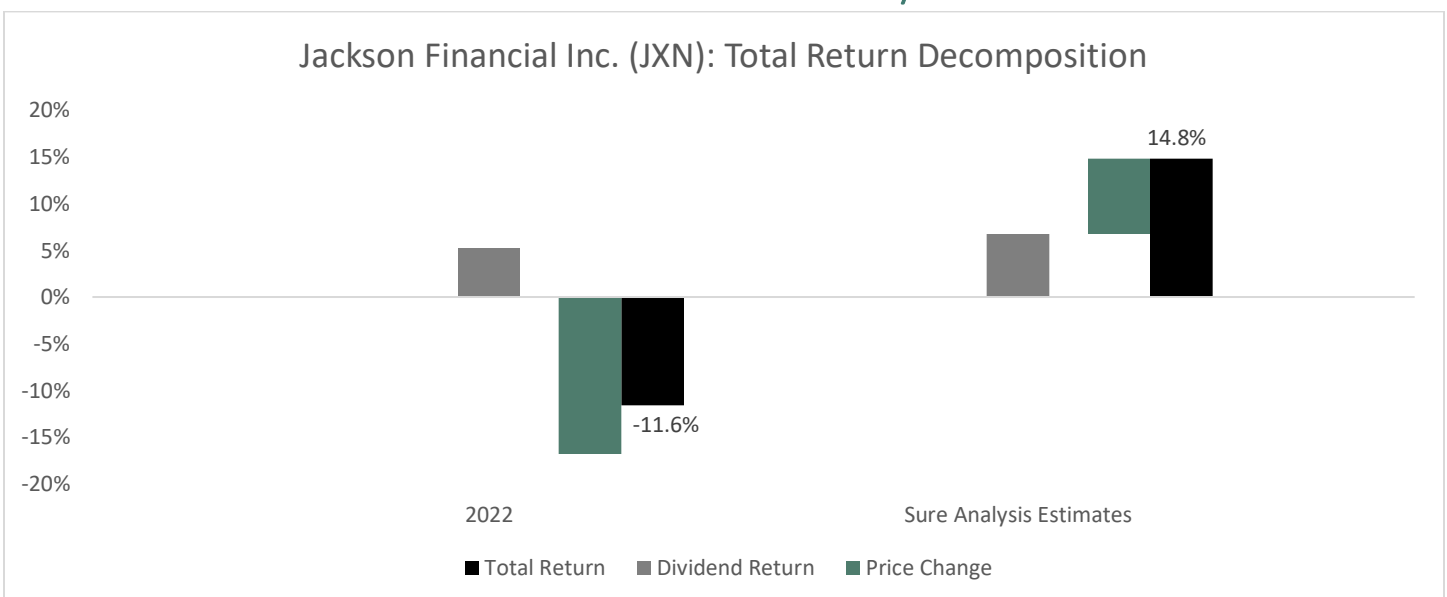
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	1%	3%	18%	16%

The company has paid a consistent dividend to its shareholders with a 2-year payout ratio averaging 2%, and we expect the company to maintain and increase its payout in the future. While the company is committed to returning capital to shareholders, achieving its 2023 target may be ambitious, given the current financial performance. However, the increase in RILA sales and growth in annuity account value indicates some positive momentum. Maintaining a healthy RBC ratio and strong liquidity should provide a buffer against potential financial challenges. Jackson Financial's share repurchase program authorizes up to \$450 million, but with \$439 million remaining as of August 3, 2023, it may face challenges given the uncertainties in the market. It's important to note the Inflation Reduction Act of 2022 introduces a 1% excise tax on significant stock buybacks.

Final Thoughts & Recommendation

While Jackson Financial runs a capital-intensive financial service business, increased annuity value will be a positive catalyst for EPS growth. Indeed, Jackson Financial's dividend growth prospects could remain strong throughout the mid-term. Shares earn a buy rating premised upon 14.8% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, the 6.3% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	---	13,688	3,489	3,441	8,452	14,407
SG&A Exp.	---	---	---	---	---	1,050	994	985	1,078	875
Net Profit	---	---	---	---	---	1,986	(497)	(1,634)	3,183	5,697
Net Margin	---	---	---	---	---	14.5%	-14.2%	-47.5%	37.7%	39.5%
Free Cash Flow	---	---	---	---	---	5,822	4,368	3,712	5,682	5,206
Income Tax	---	---	---	---	---	338	(369)	(854)	602	1,371

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	---	---	297,057	353,456	375,559	311,058
Cash & Equivalents	---	---	---	---	---	---	1,935	2,019	2,623	4,298
Acc. Receivable	---	---	---	---	---	---	8,372	35,270	33,126	29,641
Total Liabilities	---	---	---	---	---	---	289,736	343,533	364,485	301,903
Long-Term Debt	---	---	---	---	---	---	2,692	322	4,053	4,367
Total Equity	---	---	---	---	---	---	6,837	9,429	10,394	8,423
LTD/E Ratio	---	---	---	---	---	---	0.39	0.03	0.39	0.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	---	-0.5%	0.9%	1.7%
Return on Equity	---	---	---	---	---	---	---	-20.1%	32.1%	60.6%
ROIC	---	---	---	---	---	---	---	-16.1%	25.1%	39.8%
Shares Out.	---	---	---	---	---	---	---	---	94.5	88.7
Revenue/Share	---	---	---	---	---	144.90	36.93	36.43	95.30	162.44
FCF/Share	---	---	---	---	---	61.63	46.24	39.30	64.07	58.70

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

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