



Prudential Financial Inc. (PRU)

Updated November 4th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	8.0%	Market Cap:	\$34 B
Fair Value Price:	\$95	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/21/23 ¹
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	12/15/23 ²
Dividend Yield:	5.3%	5 Year Price Target	\$110	Years Of Dividend Growth:	15
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	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 \$34 billion market capitalization.

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

On November 1st, 2023, Prudential reported third quarter results for the period ending September 30th, 2023. Net income attributable to the company was \$802 million, or \$2.23 per share, compared to a net loss of \$92 million, or -\$0.26 per share, in Q3 2022. After-tax operating income equaled \$1.266 billion, or \$3.44 per share, compared to \$896 million, or \$2.37 per share, in Q2 2022.

At quarter-end, Prudential held \$1.361 trillion in AUM versus \$1.350 trillion in the year ago period. Prudential's adjusted book value per share equaled \$94.19, down slightly from \$96.41 in the year ago period.

Prudential is expected to earn \$11.89 in 2023, compared to \$11.78, \$12.09, and \$12.46 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$9.67	\$9.21	\$10.04	\$9.13	\$10.58	\$11.69	\$11.69	\$10.21	\$14.58	\$9.46	\$11.89	\$13.78
DPS	\$1.73	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$4.00	\$4.40	\$4.60	\$4.80	\$5.00	\$6.08
Shares³	461	454	447	430	423	411	399	396	390	369	364	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. 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. Earnings-per-share over the last decade have moved little.

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.

¹ Estimated ex-dividend date.

² Estimated dividend payment date.

³ 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	7.4	8.8	8.3	8.7	10.2	8.6	8.0	6.8	7.1	10.5	7.9	8.0
Avg. Yld.	2.4%	2.5%	2.9%	3.5%	2.8%	3.6%	4.3%	6.4%	4.6%	4.8%	5.3%	5.5%

Shares of Prudential have decreased \$1, or 1.1%, since our August 3rd, 2023 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 7.9 times expected earnings, this implies the potential for a small valuation tailwind. Multiple expansion could add 0.2% to annual returns through 2028.

The dividend ought to add to shareholder returns, as it sits at 5.3% 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%	42%	44%

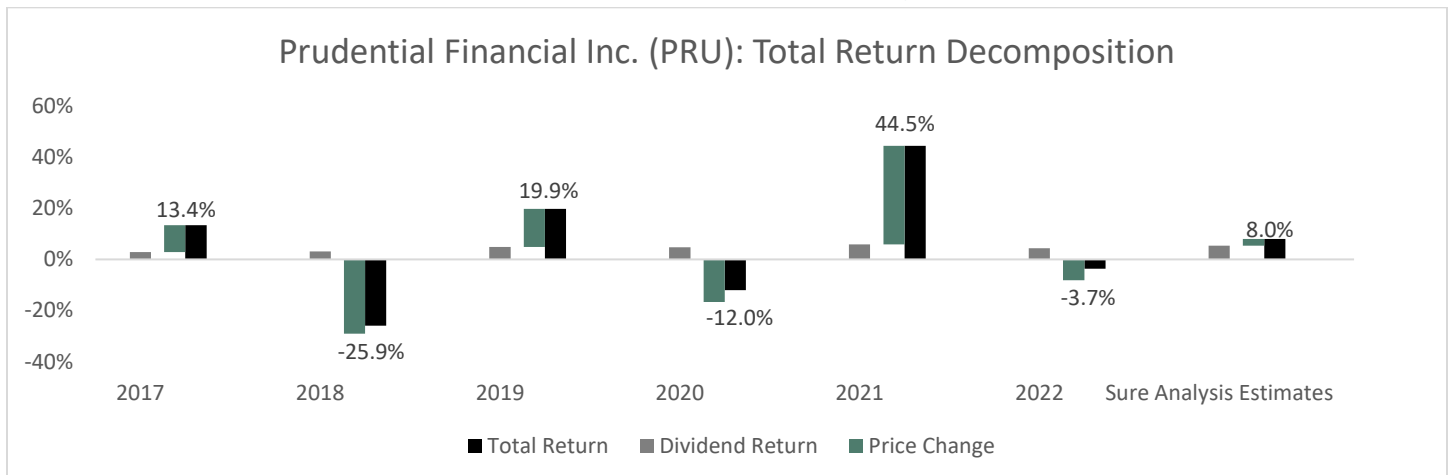
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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 was not 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 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 8.0% annual total return potential, up from our prior estimate of 7.7%. Our estimate stems from 3% earnings growth, the 5.3% starting dividend yield, and a small contribution from multiple expansion. 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 \$1 to \$110 due to EPS estimates, but continue to rate shares of Prudential as a hold 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
Revenue	41461	54105	57119	58779	59689	57570	57243	49830	61410	55490
SG&A Exp.	11011	11807	10912	11779	11915	12967	14520	14900	13420	12585
D&A Exp.	411	631	113	318	222	161	460	457	204	124
Net Profit	-667	1381	5642	4368	7863	4074	4186	(374)	7724	(1,438)
Net Margin	-1.6%	2.6%	9.9%	7.4%	13.2%	7.1%	7.3%	(0.8%)	12.6%	-2.6%
Free Cash Flow	8445	19396	13942	14815	13445	21660	19620	8368	9812	5158
Income Tax	-1058	349	2072	1335	-1438	822	947	(81)	1674	(370)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	731.78	766.66	757.26	783.96	831.92	815.08	896.55	940.7	937.6	690
Cash & Equivalents	11439	14918	17612	14127	14490	15353	16327	13700	12890	17251
Goodwill & Int.	3675	2836	2828	2314	1591	1850	1110	1103	771	595
Total Liab. (\$B)	695.90	724.31	715.33	737.87	777.58	766.05	832.83	872.5	875	673
Long-Term Debt	29524	29728	29407	21324	20070	20784	21853	20950	19620	21057
Total Equity	35278	41770	41890	45863	54069	48617	63115	67420	61880	16250
LTD/E Ratio	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
Return on Assets	-0.1%	0.2%	0.7%	0.6%	1.0%	0.5%	0.5%	-0.04%	0.8%	-0.2%
Return on Equity	-1.8%	3.6%	13.5%	10.0%	15.7%	7.9%	7.5%	-0.57%	12.0%	-3.7%
ROIC	-1.0%	2.0%	7.9%	6.3%	11.1%	5.6%	5.4%	-0.43%	9.0%	-2.4%
Shares Out.	461	454	447	430	423	411	399	398	390	369
Revenue/Share	89.53	115.68	124.06	131.61	136.90	135.08	139.31	125.27	157.42	148.09
FCF/Share	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.

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