Jackson Financial Inc. (JXN)

Updated December 6th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	16.6%	**Market Cap:**	$3.9 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	11/29/2023
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	12/14/2023
Dividend Yield:	5.3%	**5 Year Price Target**	$86	**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 November 8th, 2023, the company announced results for the third quarter of 2023. Jackson Financial reported Q3 non-GAAP EPS of $3.80, beating estimates by $0.27. The company reported revenues of $2.61 billion for the quarter, up 6.26% year-over-year. For Q3 2023, Jackson Financial demonstrated a robust financial position, with its total adjusted capital surging by approximately $700 million to $4.5 billion. Strong base contract cash flows, favorable results from variable annuity net guarantees, and associated tax benefits primarily fueled this increase. However, this growth was slightly tempered by an uptick in required capital, largely due to a downturn in equity markets, though rising interest rates somewhat mitigated this. As a result of these dynamics, the estimated Risk-Based Capital (RBC) ratio for the company ascended above its target range of 425% to 500%.

Jackson Financial's operational efficiency was evident in the third quarter, with hedge spending aligning with the guarantee fees collected, benefiting from a more favorable hedging environment. By the end of the quarter, the company's holding company asset position was sturdy, nearly $1.4 billion, including over $900 million in highly liquid assets, significantly surpassing the minimum buffer threshold. Building on the plans outlined in the second quarter, Jackson Financial completed the sale of limited partnership assets in October.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	$33.69	$64.23	***$14.00***	***$21.54***
DPS	---	---	---	---	---	---	---	---	$0.50	$2.20	***$2.48***	***$3.48***
Shares[1]	---	---	---	---	---	---	---	---	94.5	88.7	***83.3***	***60.7***

In line with the analysts' estimates and high-interest rate environment for the JXN, we expect the company to post EPS of $14.00 in 2023. We estimate an EPS growth of 9% over the next five years, leading to our estimated EPS of $21.54 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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028

[1] Shares in millions.

Avg. P/E	---	---	---	---	---	---	---	---	5.9	5.2	***3.4***	***4.0***
Avg. Yld.	---	---	---	---	---	---	---	---	1.6%	6.2%	***5.3%***	***4.0%***

The financial services provider trades at a forward P/E of 3.4, considerably lower than its two-year average P/E of 5.6. The increasing registered index-linked annuity and an uptick in annuity account value have benefitted the company in the near term, and the stock's P/E multiple has expanded in the last quarter. Following the robust quarter, we have increased our P/E multiple estimates from 3.0 to 4.0, below the company's long-term P/E averages, which is a fair reflection of its overvaluation, suggesting a target price of $86 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

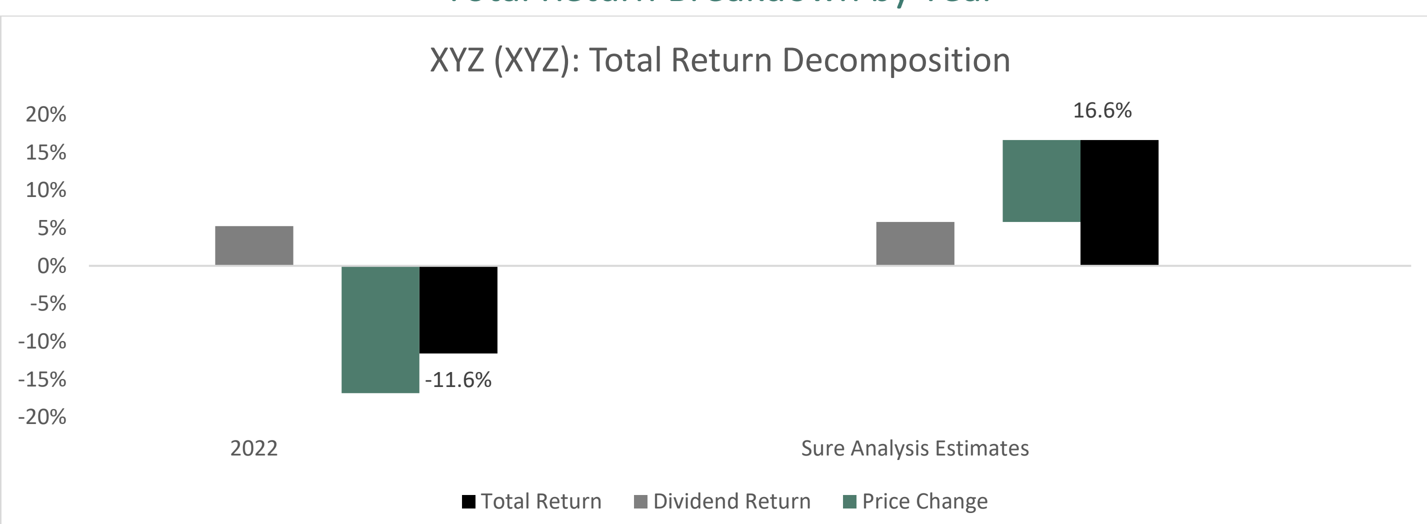
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	1%	3%	***18%***	***16%***

The company has paid a consistent dividend to its shareholders with a 2-year payout ratio averaging 2.5%, 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. As of the close of Q3, the company's year-to-date capital return approached $350 million. This figure, combined with the anticipated share repurchases and the dividend to be paid in the fourth quarter, reinforces the company's confidence in meeting its 2023 capital return target of $450 million to $550 million. Additionally, the company has a substantial remaining share repurchase authorization of approximately $360 million, offering considerable flexibility for the ongoing execution of its capital return strategy. This robust repurchase authorization underscores the company's commitment to returning value to its shareholders while maintaining financial flexibility.

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. We maintain our buy rating for the stock premised upon the 16.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 9.0%, the 5.3% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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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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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.