Principal Financial Group (PFG)

Updated February 13th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$19B
Fair Value Price:	$80	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/11/24
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	03/28/24
Dividend Yield:	3.5%	**5 Year Price Target**	$102	**Years Of Dividend Growth:**	18
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 its fourth quarter earnings results on February 12. Principal Financial Group saw its assets under management increase to $695 billion, which does not include additional assets that are solely under administration. AuM increased due to the equity market recovery during the quarter. Principal Financial's successful management of the assets of its customers continued, as 80% 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 30% earnings increase on a year-over-year basis.

Principal Financial Group generated earnings-per-share of $1.83 during the fourth quarter, which beat the consensus estimate by $0.14. Earnings-per-share were up 16% compared to the previous year's quarter on an adjusted basis. During 2021, profits rose to a new record level, but 2022 and 2023 were slightly weaker years, as profits pulled back at a low single digit rate. It is expected that 2024 will be a new record year for the company, as Principal Financial Group expects its earnings-per-share to grow by around 11% this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.41	$4.26	$4.55	$5.04	$5.53	$5.58	$4.94	$6.77	$6.66	$6.55	***$7.25***	***$9.25***
DPS	$1.28	$1.50	$1.61	$1.87	$2.13	$2.18	$2.24	$2.44	$2.56	$2.68	***$2.76***	***$3.69***
Shares[1]	299	298	288	289	285	281	277	269	249	241	***235***	***210***

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.2	11.9	10.1	12.8	8.0	10.0	9.7	10.6	12.6	12.1	***10.9***	***11.0***
Avg. Yld.	2.6%	3.0%	3.5%	2.9%	4.9%	3.9%	4.7%	3.4%	3.0%	3.4%	***3.5%***	***3.6%***

Principal Financial Group trades at around 11 times 2024's earnings-per-share estimate right now, which is relatively in line with how the company's shares were, on average, valued over the last decade. We believe that this is a very reasonable valuation and believe that Principal Financial Group is trading around fair value today. The dividend yield of 3.5% provides solid income for investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29.0%	35.2%	35.4%	37.1%	38.5%	39.1%	45.3%	36.0%	38.4%	40.9%	***38.1%***	***39.9%***

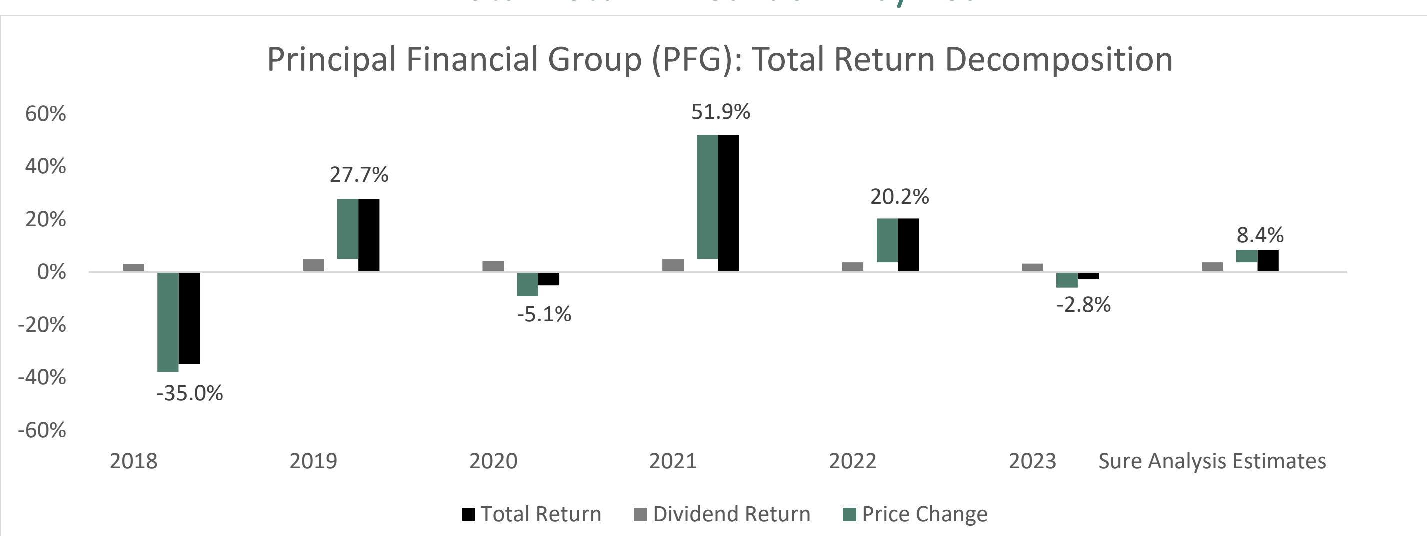
Principal Financial Group has grown its dividend considerably over the last decade, which was partially possible due to earnings-per-share growth, but which was also due to an increase in the company's dividend payout ratio. The dividend payout ratio remains well below 40%, which makes us believe that 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 reasonably resilient to recessions and market downturns, although the company is not immune to such macro problems. Based on current estimates, the total return outlook over the coming years is solid but not great, which is why we rate Principal Financial Group a hold at the current share price.

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.