



# Prudential Financial Inc. (PRU)

Updated February 7<sup>th</sup>, 2024, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$108	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Market Cap:</b>	\$39 B
<b>Fair Value Price:</b>	\$108	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	02/19/24
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.0%	<b>Dividend Payment Date:</b>	03/14/24
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$125	<b>Years Of Dividend Growth:</b>	16
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$39 billion market capitalization.

On February 6<sup>th</sup>, 2024, Prudential declared a \$1.30 quarterly dividend, marking a 4.0% increase.

Also on February 6<sup>th</sup>, 2024, Prudential announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2023. For the quarter, net income attributable to the company was \$1.317 billion, or \$3.61 per share, compared to a net loss of \$52 million, of -\$0.16 per share, in Q4 2022. After-tax operating income equaled \$943 billion, or \$2.58 per share, compared to \$932 million, or \$2.49 per share, in Q4 2022. For the year, Prudential reported net income attributable to the company of \$2.488 billion, or \$6.74 billion per share, compared to a net loss of \$1.647 billion, or -\$4.49 per share, in 2022. After-tax adjusted operating income of \$4.286 billion, or \$11.62 per share, compared to \$3.914 billion, or \$10.31 per share, in 2022. At quarter-end, Prudential held \$1.45 trillion in AUM versus \$1.1.377 trillion in the year ago period. Prudential's adjusted book value per share equaled \$96.64, compared to \$94.69 in the year ago period. The company also announced a \$1 billion share repurchase authorization.

Prudential is expected to earn \$13.48 in 2024. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$9.21	\$10.04	\$9.13	\$10.58	\$11.69	\$11.69	\$10.21	\$14.58	\$10.31	\$11.62	<b>\$13.48</b>	<b>\$15.63</b>
<b>DPS</b>	\$2.17	\$2.44	\$2.80	\$3.00	\$3.60	\$4.00	\$4.40	\$4.60	\$4.80	\$5.00	<b>\$5.20</b>	<b>\$6.03</b>
<b>Shares<sup>1</sup></b>	454	447	430	423	411	399	396	390	369	361	<b>361</b>	<b>355</b>

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 oscillating between declines and growth the past two years. Earnings-per-share over the last decade have moved little, growing at a rate of less than 3% since 2014.

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.

<sup>1</sup> In millions.

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We expect earnings to grow in 2024 to go along with a 3% intermediate term growth.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	8.8	8.3	8.7	10.2	8.6	8.0	6.8	7.1	10.5	8.9	<b>8.0</b>	<b>8.0</b>
Avg. Yld.	2.5%	2.9%	3.5%	2.8%	3.6%	4.3%	6.4%	4.6%	4.8%	4.8%	<b>4.8%</b>	<b>4.8%</b>

Shares of Prudential have increased \$14, or 14.9%, since our November 4<sup>th</sup>, 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 our target P/E, we do not anticipate valuation playing much of a factor in total returns at this point.

The dividend ought to add to shareholder returns, as it sits at 4.8% and makes up less than half of earnings.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	24%	31%	28%	31%	34%	43%	32%	51%	43%	<b>39%</b>	<b>39%</b>

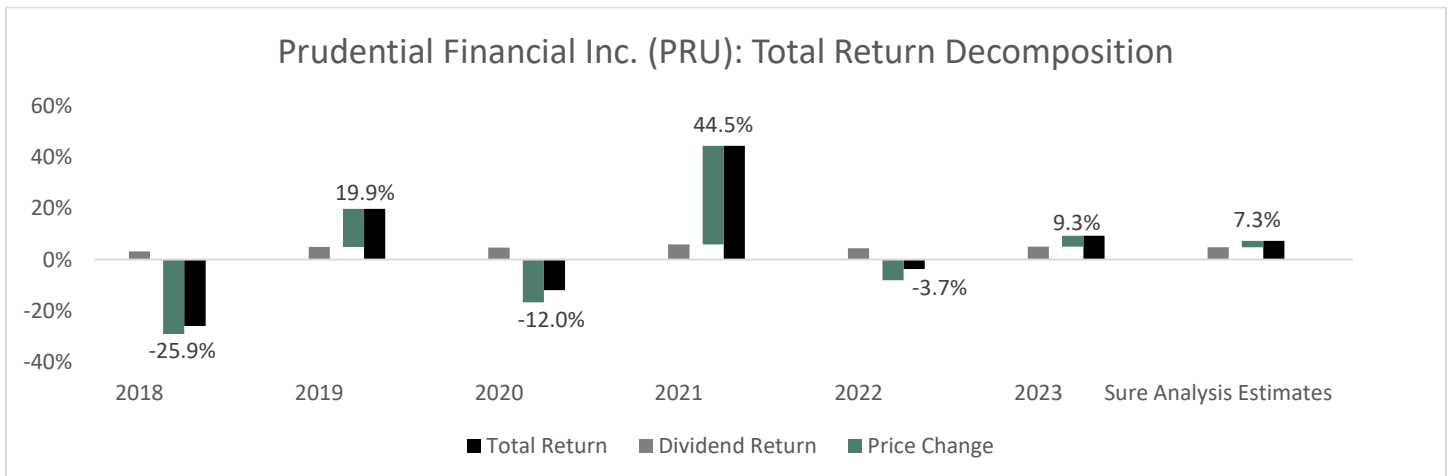
While Prudential is highly profitable and well-known, we do not believe the firm carries a significant competitive advantage over its competitors as the products it sells are highly commoditized.

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 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 7.3% annual total return potential, down slightly from our prior estimate of 8.0%. Our estimate stems from 3% earnings growth and the 4.8% starting dividend yield. 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 \$15 to \$125 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	54105	57119	58779	59689	62992	64807	57033	70934	60050	48377
<b>SG&amp;A Exp.</b>	11807	10912	11779	11915	11949	13416	13913	13582	12493	13100
<b>D&amp;A Exp.</b>	631	113	318	222	161	460	457	204	124	
<b>Net Profit</b>	1381	5642	4368	7863	4074	4186	(374)	7724	(1438)	2488
<b>Net Margin</b>	2.6%	9.9%	7.4%	13.2%	6.5%	6.5%	-0.7%	10.9%	-2.4%	5.1%
<b>Free Cash Flow</b>	19396	13942	14876	13460	21664	19625	8368	9812	5158	
<b>Income Tax</b>	349	2072	1335	(1438)	822	947	(81)	1674	(370)	613

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets (\$B)</b>	767	757	784	832	815	897	941	938	690	721
<b>Cash &amp; Equivalents</b>	14918	17612	14127	14490	15353	16327	13701	12888	17251	19419
<b>Goodwill &amp; Int.</b>	2836	2828	2314	1591	5211	2573	4718	3194	1989	530
<b>Total Liab. (\$B)</b>	724	715	738	778	766	833	873	875	673	691
<b>Long-Term Debt</b>	29728	29407	21324	20070	20784	21853	20948	19618	21057	20874
<b>Total Equity</b>	41770	41890	45863	54236	48617	63115	67425	61876	16250	27820
<b>LTD/E Ratio</b>	0.71	0.70	0.46	0.37	0.43	0.35	0.31	0.32	1.30	0.75

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	0.2%	0.7%	0.6%	1.0%	0.5%	0.5%	0.0%	0.8%	-0.2%	0.4%
<b>Return on Equity</b>	3.5%	13.4%	9.9%	15.6%	7.9%	7.4%	-0.6%	11.8%	-3.6%	10.6%
<b>ROIC</b>	2.0%	7.9%	6.3%	11.1%	5.6%	5.4%	-0.4%	9.0%	-2.4%	5.6%
<b>Shares Out.</b>	454	447	430	423	411	399	396	390	369	361
<b>Revenue/Share</b>	116.66	124.02	131.63	136.92	147.83	157.72	144.10	181.84	161.29	132.69
<b>FCF/Share</b>	41.82	30.27	33.31	30.88	50.84	47.76	21.14	25.15	13.85	

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

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