T. Rowe Price Group Inc. (TROW)

Updated November 3rd, 2024, by Nathan Parsh

Key Metrics

Current Price:	$112	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$25 B
Fair Value Price:	$130	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/13/24
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date**	12/27/24
Dividend Yield:	4.4%	**5 Year Price Target**	$151	**Years Of Dividend Growth:**	38
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

T. Rowe Price Group, founded in 1937 and headquartered in Baltimore, MD, is one of the largest publicly traded asset managers. The company provides a broad array of mutual funds, sub-advisory services, and separate account management for individual and institutional investors, retirement plans and financial intermediaries. T. Rowe Price has a market capitalization of almost $25 billion and had assets under management of more than $1.6 trillion as of September 30th, 2024.

On January 30th, 2024, T. Rowe Price declared a $1.24 quarterly dividend, representing a 1.6% increase and marking the company's 38th year of increasing its payout.

On November 1st, 2024, T. Rowe Price reported third quarter results for the period September June 30th, 2024. For the quarter, revenue grew 6.9% to $1.79 billion, though this was $60 million below estimates. Adjusted earnings-per-share of $2.57 compared favorably to $2.17 in the prior year and was $0.22 more than expected.

During the quarter, assets under management (AUM) improved $61.8 billion, or 3.9%, to $1.63 trillion. Market appreciation of $74 billion was partially offset by $12.2 billion of net client outflows. Operating expenses of $1.17 billion increased 7.6% year-over-year, but just 0.3% quarter-over-quarter.

We expect T. Rowe Price to earn $9.31 per share in 2024, up from $9.03, $8.38, and $7.80 previously.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.55	$4.63	$4.84	$6.13	$7.01	$8.07	$9.58	$12.75	$8.02	$7.59	***$9.31***	***$10.79***
DPS	$1.76	$2.08	$2.16	$2.28	$2.80	$3.04	$3.60	$4.32	$4.80	$4.88	***$4.96***	***$5.75***
Shares[1]	261	250	245	245	238	235	231	229	225	224	***223***	***200***

T. Rowe Price's earnings, as well as its dividends, have grown substantially over the last decade. While earnings did drop during the last financial crisis, the overall record has been solid. Since 2014, the company has grown earnings-per-share by an average compound rate of 5.9% per annum. Moreover, the company performed well in 2020.

Asset managers like T. Rowe have low variable costs. As a result, higher revenues, driven primarily by increasing assets under management, allow for margin expansion and attractive earnings growth rates. Assets under management grow in two basic ways: increased contributions and higher underlying asset values. While asset values are finicky, the trend is upward over the long-term. On the contribution side, T. Rowe Price's strong past performance is a key selling point and could attract customers going forward. In addition, T. Rowe has another growth lever in the way of share repurchases.

With that being said there is a significant and ongoing challenge for traditional asset managers. Namely, the advance of low-cost ETFs, where other asset managers such as Blackrock or Vanguard are much better positioned. This could lead to lower growth rates for T. Rowe Price, as managers are forced to compete on price and reduce management fees.

Taking the company's strong history and solid financial position paired against a challenging industry, we are forecasting 3% growth over the next five years.

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[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.9	16.7	14.7	13.1	15.6	12.4	12.8	14.5	13.6	14.2	***12.0***	***14.0***
Avg. Yld.	2.2%	2.7%	3.0%	2.8%	2.6%	2.8%	2.8%	2.3%	4.4%	4.5%	***4.4%***	***3.8%***

Shares of T. Rowe are unchanged since our July 27th, 2024 update. The stock has traded hands with an average P/E ratio of about 15 times earnings in the last decade. We believe 14 times earnings is a reasonable starting point, taking into consideration an excellent balance sheet paired with moderate growth potential. With shares trading below this level, we forecast a slight valuation tailwind. Multiple expansion could increase annual returns by 3.1% through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39%	45%	45%	37%	40%	38%	38%	34%	60%	64%	***53%***	***53%***

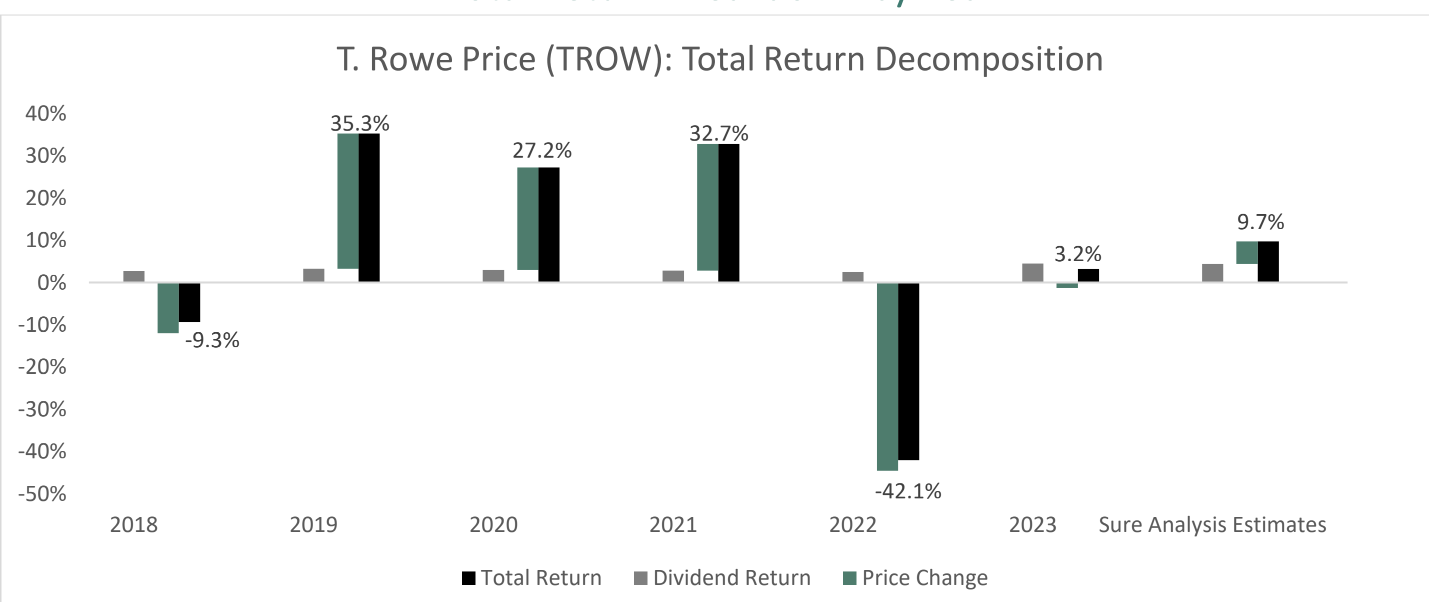
While T. Rowe has put together a solid record, asset managers do not tend to have a large competitive advantage. Fund performance and general customer stickiness help – once you invest with a company you tend to stay invested, and the benefits of switching are unknown. However, the "race to the bottom" as it relates to fees has been and will continue to be an important and ongoing challenge in the industry.

During the Great Recession T. Rowe posted earnings-per-share of $2.40, $1.82, $1.65, and $2.53 in the 2007 through 2010 stretch. This is instructive, as it shows both the cyclical nature in lesser times along with the ability to bounce back. The company's balance sheet is in excellent shape with zero long-term debt.

Final Thoughts & Recommendation

T. Rowe Price is projected to return 9.7% annually through 2029, up from our prior estimate of 9.2%. This forecast stems from a 3% earnings growth rate, a starting yield of 4.4%, and a low single-digit contribution from multiple expansion. T. Rowe Price has been a great business, with strong operating metrics for many years. Market improvements added to the quarter, but expenses were also up year-over-year. Additionally, the focus on lower fees remains a headwind for the industry as a whole. Shares continue to earn a hold rating due to projected returns. That said, T. Rowe Price sits just below our buy rating threshold, so we would be interested in the name on any pullback.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3982	4201	4285	4855	5373	5618	6207	7672	6488	6461
Gross Profit	2509	2606	2418	2781	3126	3233	3590	4679	3566	3429
Gross Margin	63.0%	62.0%	56.4%	57.3%	58.2%	57.5%	57.8%	61.0%	55.0%	53.1%
SG&A Exp.	220	239	618	723	780	846	845	969	1070	1213
D&A Exp.	112	126	133	144	160	191	190	205	646	255
Operating Profit	1891	1899	1800	2059	2346	2387	2746	3710	2496	2093
Operating Margin	47.5%	45.2%	42.0%	42.4%	43.7%	42.5%	44.2%	48.4%	38.5%	32.4%
Net Profit	1230	1223	1215	1498	1838	2131	2373	3083	1558	1789
Net Margin	30.9%	29.1%	28.4%	30.9%	34.2%	37.9%	38.2%	40.2%	24.0%	27.7%
Free Cash Flow	1218	1379	22	43	1451	1318	1704	3213	2122	1219
Income Tax	774	779	707	924	616	678	719	896	499	655

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5644	5107	6225	7535	7689	9330	10659	12509	11643	12279
Cash & Equivalents	1506	1172	1205	1903	1425	1782	2152	1523	1756	2067
Accounts Receivable	443	446	455	565	550	647	863	1058	749	808
Goodwill & Int. Ass.	666	666	666	666	666	666	666	3607	3273	3150
Total Liabilities	249	345	529	718	825	1107	1390	2255	1956	1988
Accounts Payable	143	171	181	216	229	215	188	431	407	410
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	5395	4762	5009	5824	6124	7102	7707	9023	8840	9505
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	23.0%	22.8%	21.4%	21.8%	24.1%	25.0%	23.7%	26.6%	12.9%	15.0%
Return on Equity	24.1%	24.1%	23.2%	23.9%	26.9%	28.3%	27.1%	31.6%	15.6%	17.9%
ROIC	24.1%	24.1%	23.2%	23.9%	26.9%	28.3%	27.1%	31.6%	15.6%	17.9%
Shares Out.	261	250	245	245	238	235	231	229	225	224
Revenue/Share	14.89	16.10	17.12	19.81	21.76	23.55	26.85	33.53	28.57	28.74
FCF/Share	4.55	5.29	0.09	0.18	5.88	5.52	7.37	14.04	9.34	5.42

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