

Prudential Financial(PRU)

\$62.87 (As of 03/10/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Prudential Financial continues to gain from strong asset-based businesses, improved margins in Group Insurance business and international operations. High performing asset management business and deeper reach in the pension risk transfer market are catalysts for long-term growth. Shares of the company have underperformed the industry in a year. Nevertheless, its policy of returning value to shareholders via dividend payments and share repurchases bodes well. The company's debt levels also declined. However, exposure to low interest rates as well as to products like annuities and universal life, which yield minimum returns, bothers. Elevated expenses due to increased amortization of acquisition costs plus general and administrative expenses weighed on margin expansion.

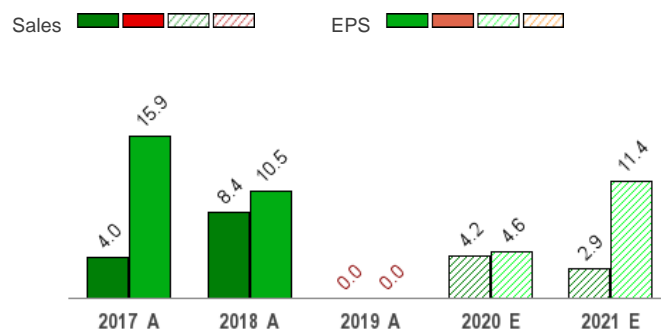
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$106.40 - \$57.38
20 Day Average Volume (sh)	3,320,220
Market Cap	\$25.0 B
YTD Price Change	-32.9%
Beta	1.57
Dividend / Div Yld	\$4.40 / 7.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 43% (110 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.9%
Last Sales Surprise	22.6%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	05/05/2020
Earnings ESP	0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	15,669 E	15,050 E	15,338 E	15,419 E	62,363 E
2020	15,520 E	14,840 E	15,146 E	15,160 E	60,599 E
2019	13,648 A	14,106 A	12,928 A	17,450 A	58,132 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.38 E	\$3.55 E	\$3.59 E	\$3.30 E	\$13.63 E
2020	\$2.97 E	\$3.13 E	\$3.25 E	\$3.01 E	\$12.23 E
2019	\$3.00 A	\$3.14 A	\$3.22 A	\$2.33 A	\$11.69 A

*Quarterly figures may not add up to annual.

P/E TTM	5.4
P/E F1	5.1
PEG F1	0.6
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

Overview

Headquartered in Newark, NJ, Prudential Financial Inc. was founded in 1875. Through its subsidiaries and affiliates, this a financial services leader offers an array of financial products and services including life insurance, annuities, retirement-related services, mutual funds, investment management and real estate services. These are offered to individual and institutional customers across United States, Asia, Europe and Latin America.

Prudential's principal operations are comprised of five divisions, which together encompass seven segments, and Corporate and Other operations.

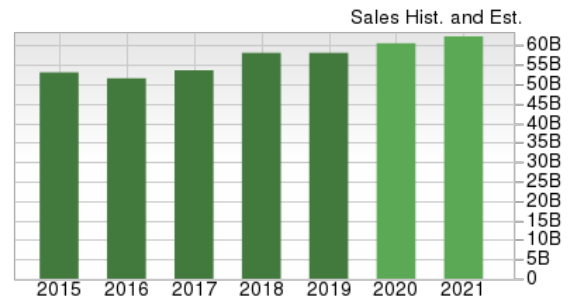
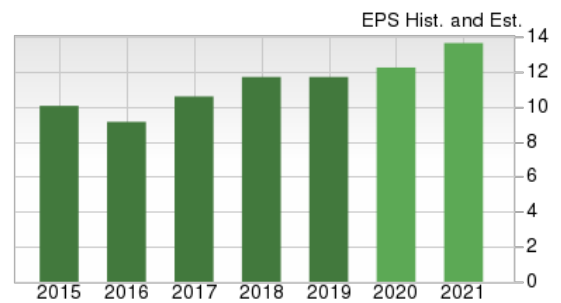
The **U.S. Workplace Solutions division (51.4% of 2019 Revenues)** consists of Retirement and Group Insurance segments. Retirement provides retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. Group Insurance provides a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the United States.

The **International Insurance division (27.4%)** consists of International Insurance segment, and the Closed Block division consists of Closed Block segment. International Insurance develops and distributes life insurance, retirement products and certain accident and health products with fixed benefits.

The **U.S. Individual Solutions division (12.3%)** consists of Individual Annuities and Individual Life segments. Individual Annuities develops and distributes individual variable and fixed annuity products. Individual Life develops and distributes term life, variable life and universal life insurance products.

The **PGIM division (8.9%)** provides asset management services related to public and private fixed income, public equity and real estate, commercial mortgage origination and servicing, and mutual funds and other retail services.

Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off.



Reasons To Buy:

- ▲ Shares of Prudential have underperformed the industry's increase in a year's time. Nonetheless, its solid fundamentals are likely to help the stock bounce back going forward.
- ▲ Prudential is witnessing huge demand for retirement benefits' products for baby boomers, which is expected to continue. The U.S. Census Bureau projects that nearly 25% of the population will be 65 years or older by 2050. Prudential's vast distribution network, compelling product portfolio and superior brand image will give it a competitive edge.
- ▲ Prudential has emerged to be among the top five individual life insurance companies in the U.S. with new recurring premium sales, greater scale, expanded product offerings and broader distribution capabilities. Premiums have increased consistently since 2015. Given the company's leading position in universal, term and variable life insurance and expanding Retirement business, we expect premium growth to continue in the coming quarters.
- ▲ Recently, Prudential acquired Assurance to boost financial wellness solutions business. This acquisition has expanded its distribution capabilities with a direct-to consumer platform. Prudential expects the addition of Assurance to be moderately accretive to its bottom line and return on equity from the next year. The acquisition will help generate cost savings between \$50 million and \$100 million, in addition to expected margin expansion of \$500 million by 2022. Prudential projects mid-to-high single digit earnings growth in the U.S. Financial Wellness business in the intermediate term. Thus, this buyout should help the company achieve its target.
- ▲ Prudential has a strong international presence that gives it more organic growth opportunities than its peers. Expanding its international business (mainly in Japan, Korea and China) is vital for long-term growth. Prudential has a strong footprint in Japan, which offers attractive opportunities to capitalize on protection products and retirement needs and which has historically generated ROE in the 20% range. Prudential is also penetrating China. The company's business in Brazil has gained sufficient scale and should become an important contributor to earnings growth in the international division over the next few years. The company also expanded in Malaysia which is an attractive market, with low life insurance penetration, a well-developed regulatory environment and long-term growth potential. Prudential remains upbeat about expanding its international footprint while witnessing consistent growth across its International businesses.
- ▲ Prudential has successfully generated investors' value by resorting to shareholder-friendly measures such as dividend payments and share repurchases, over time. The company has been increasing its dividend for the past many years, the recent one marking the 12th consecutive year of dividend hike. In December 2019, it authorized the repurchase of 2 billion stock for 2020. Prudential envisions about 65% free cash flow ratio of adjusted operating income on average over time. The company's debt levels also declined and its debt to equity ratio of 29.3% is lower than the industry average of 38.8%.

Demographic changes working in favor of Prudential, proven acquisition and integration track record, brand value, wide agent network and growing international business are positives.

Reasons To Sell:

- ▼ Prudential's exposure to products like annuities and universal life, which guarantee minimum return, will strain its capital. Its results have been suffering due to additional reserve accretion required when the low interest rate increases the value of these liabilities. The company expects near-term challenges in sales though remain optimistic on the longer-term prospects for Annuities due to increasing demand for retirement income products.
- ▼ Over the last few years, the company has been witnessing increase in expenses. Benefits and expenses of the company inched up 1% year over year in 2019 due to increased amortization of acquisition costs plus general and administrative expenses. The company also incurs higher-than-general costs in its international business. An increase in expenses can cause margin contraction.
- ▼ Return on assets, a profitability measure, represents how efficient a company's management is at using its assets to generate earnings. Prudential's Return on Assets of 0.6 compares unfavorably with industry average of 0.9.

Low interest rates, an underperforming group disability business, regulatory control increase in expenses weighing on margin expansion remain concerns.

Last Earnings Report

Prudential Q4 Earnings Surpass Estimates, Fall Y/Y

Prudential Financial's fourth-quarter 2019 operating net income of \$2.33 per share beat the Zacks Consensus Estimate by 15.9% on the back of Prudential Global Investment Management (PGIM), U.S. Individual Solutions and U.S. Workplace Solutions segments. However, the bottom line declined 4.5% year over year.

Behind the Headlines

Total revenues of \$17.4 billion were down 1.9% year over year due to lower asset management fees, commissions and other income. But the top line beat the Zacks Consensus Estimate by 18.5%.

Total benefits and expenses of \$16.2 billion dipped 1.2% year over year in the quarter. This decrease in expenses was mainly attributable to lower insurance and annuity benefits.

Quarterly Segment Update

PGIM reported adjusted operating income of \$288 million, up 18.5% year over year. This upside was owing to higher asset management fees, backed by an increase in average assets under management, and a rise in other related revenues, partly offset by elevated expenses.

PGIM assets under management were \$1.3 trillion (a record high) at the end of the reported quarter, up 13% year over year.

U.S. Workplace Solutions' adjusted operating income was \$342 million, up 37.3% from the year-ago quarter on higher contribution from Retirement segment.

U.S. Individual Solutions reported adjusted operating income of \$508 million, up 21.2% from the prior-year quarter, riding on growth in earnings from Individual Life and Individual Annuity business.

International Insurance delivered adjusted operating income of \$797 million, up 8.3% from the year-earlier period, banking on stronger net investment spread results, business expansion and an unfavorable effect from changes in market conditions on estimates of profitability in the year-ago quarter.

Corporate and Other Operations incurred adjusted operating loss of \$738 million, wider than \$329 million loss a year ago. The loss deterioration reflects more expenses borne by the company pertaining to its Voluntary Separation Program.

Share Repurchase and Dividend Update

In the quarter under review, the company returned capital worth \$906 million to its shareholders.

It also declared a quarterly dividend of \$1.10 per share, payable Mar 12, 2020 to its shareholders of record as of Feb 18, 2020.

Financial Update

Cash and cash equivalents of \$16.3 billion at the quarter end were up 6.3% year over year.

Debt balance totaled \$20.6 billion as of Dec 31, 2019, up 3.8% from the level as of 2018 end.

As of Dec 31, 2019, Prudential Financial's assets under management ascended 12.6% year over year to \$1.5 trillion.

Adjusted book value per common share, a measure of the company's net worth, came in at \$101.04 as of Dec 31, 2019, up 5.2% year over year.

Operating return on average equity was 9.4% in the fourth quarter, contracting 90 basis points year over year.

Full Update

Operating net income for the year summed \$11.69 per share, flat with the 2018-level. Revenues for the year totaled \$58.1 billion, flat year over year.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	22.63%
EPS Surprise	15.92%
Quarterly EPS	2.33
Annual EPS (TTM)	11.69

Recent News

Prudential Financial Hikes Quarterly Dividend - Feb 04, 2020

The board of directors of Prudential Financial raised its quarterly cash dividend by 10% to \$1.10 per share to shareholders of record as of Feb 18. The dividend will be paid out on Mar 12, 2020.

Valuation

Prudential shares are down 33.6% and 38.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 25.9% and 20.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18.3% and 14%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 5x forward 12-month earnings, which compares to 7.2x for the Zacks sub-industry, 11.8x for the Zacks sector and 15.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.8x and as low as 4.7x, with a 5-year median of 8x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 5.3x forward 12-month earnings.

The table below shows summary valuation data for PRU

Valuation Multiples - PRU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.03	7.24	11.81	15.75
	5-Year High	11.8	12.61	16.21	19.34
	5-Year Low	4.66	7.24	11.81	15.18
	5-Year Median	7.99	10.21	13.97	17.42
P/S F12M	Current	0.41	1.22	5.99	2.91
	5-Year High	1	1.74	6.64	3.44
	5-Year Low	0.38	0.89	5.39	2.54
	5-Year Median	0.8	1.31	6.04	3
P/B TTM	Current	0.4	1.01	2.23	3.69
	5-Year High	1.06	1.98	2.89	4.56
	5-Year Low	0.37	0.94	1.83	2.85
	5-Year Median	0.81	1.46	2.52	3.63

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 253)



Top Peers

Aegon NV (AEG)	Neutral
Aflac Incorporated (AFL)	Neutral
Cigna Corporation (CI)	Neutral
MetLife, Inc. (MET)	Neutral
Prudential Public Limited Company (PUK)	Neutral
Swiss Re Ltd. (SSREY)	Neutral
Zurich Insurance Group Ltd. (ZURVY)	Neutral
American International Group, Inc. (AIG)	Underperform

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	PRU Neutral	X Industry	S&P 500	AIG Underperform	CI Neutral	MET Neutral
VGM Score	A	-	-	B	B	A
Market Cap	24.96 B	4.06 B	20.21 B	30.63 B	73.58 B	32.07 B
# of Analysts	6	2	13	7	13	5
Dividend Yield	7.00%	2.57%	2.18%	3.65%	0.02%	5.03%
Value Score	A	-	-	B	B	A
Cash/Price	1.57	0.26	0.05	0.69	0.08	0.94
EV/EBITDA	0.04	4.65	12.36	3.73	8.39	2.02
PEG Ratio	0.53	1.27	1.78	0.76	0.95	1.33
Price/Book (P/B)	0.40	0.94	2.77	0.46	1.63	0.49
Price/Cash Flow (P/CF)	4.76	7.88	11.04	3.36	7.29	5.97
P/E (F1)	4.80	8.62	16.09	7.60	10.68	5.75
Price/Sales (P/S)	0.43	0.90	2.17	0.62	0.48	0.46
Earnings Yield	19.45%	11.18%	6.20%	13.17%	9.36%	17.39%
Debt/Equity	0.29	0.21	0.70	0.53	0.70	0.22
Cash Flow (\$/share)	13.20	3.58	7.01	10.45	27.12	5.87
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	5.99%	5.87%	10.85%	-6.76%	18.21%	2.11%
Proj. EPS Growth (F1/F0)	4.62%	7.54%	6.14%	0.56%	8.59%	-0.29%
Curr. Cash Flow Growth	2.41%	12.09%	6.09%	41.46%	138.17%	6.34%
Hist. Cash Flow Growth (3-5 yrs)	1.57%	0.02%	8.52%	-3.88%	31.41%	-4.47%
Current Ratio	0.10	0.45	1.24	0.24	0.64	0.14
Debt/Capital	22.64%	17.13%	42.57%	34.40%	41.32%	17.89%
Net Margin	7.20%	7.13%	11.69%	6.73%	3.32%	8.39%
Return on Equity	7.81%	6.93%	16.74%	6.28%	14.69%	9.14%
Sales/Assets	0.07	0.23	0.54	0.10	0.99	0.10
Proj. Sales Growth (F1/F0)	4.24%	0.00%	3.71%	-0.48%	10.61%	2.46%
Momentum Score	A	-	-	C	D	A
Daily Price Chg	7.95%	2.54%	4.87%	6.89%	8.90%	7.23%
1 Week Price Chg	-7.48%	-0.39%	-0.67%	-10.25%	6.88%	-8.29%
4 Week Price Chg	-34.42%	-18.64%	-15.65%	-35.62%	-8.09%	-33.16%
12 Week Price Chg	-33.91%	-18.93%	-13.60%	-32.28%	2.20%	-31.56%
52 Week Price Chg	-33.64%	-9.96%	-2.27%	-18.54%	20.37%	-21.43%
20 Day Average Volume	3,320,220	171,062	2,778,843	9,143,446	2,988,843	8,461,727
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.83%	-0.06%	-0.16%	-8.91%	-0.06%	-0.16%
(F1) EPS Est 12 week change	-1.64%	-1.69%	-0.57%	-8.72%	-0.50%	0.73%
(Q1) EPS Est Mthly Chg	-0.57%	-0.69%	-0.49%	-9.68%	-0.45%	-0.69%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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