

Prudential Financial(PRU)

\$70.74 (As of 08/11/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: D

Summary

Prudential Financial's second-quarter earnings beat estimates but declined 41.1% year over year. It should benefit from solid 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. The company's strategic initiatives have also strengthened its existing capabilities. Its policy of returning value to shareholders bodes well. Its shares have outperformed the industry in a year. However, exposure to low interest rates and products like annuities and universal life yielding minimum return bothers. Prudential expects third-quarter earnings of \$2.63 per share and net investment income is projected to decline by \$15 million. Also, its high debt level raises concerns.

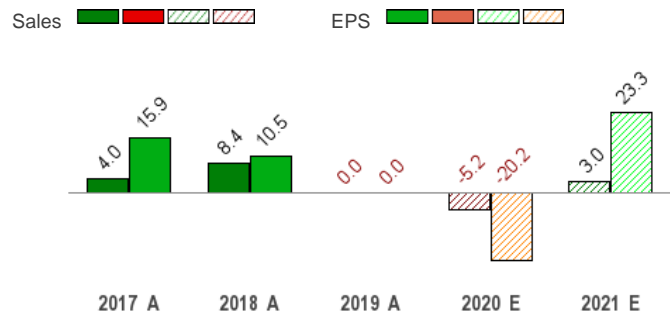
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$97.24 - \$38.62
20 Day Average Volume (sh)	2,535,309
Market Cap	\$27.9 B
YTD Price Change	-24.5%
Beta	1.68
Dividend / Div Yld	\$4.40 / 6.2%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 34% (166 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	11/02/2020
Earnings ESP	-0.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	14,648 E	13,693 E	13,998 E	14,114 E	56,760 E
2020	13,334 A	13,078 A	13,877 E	14,016 E	55,105 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	\$2.88 E	\$2.91 E	\$2.82 E	\$2.63 E	\$11.50 E
2020	\$2.32 A	\$1.85 A	\$2.62 E	\$2.61 E	\$9.33 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	7.3
P/E F1	7.6
PEG F1	0.8
P/S TTM	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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.

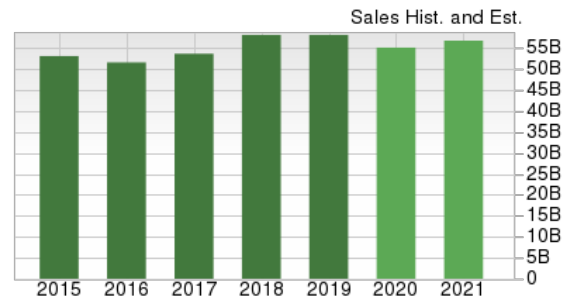
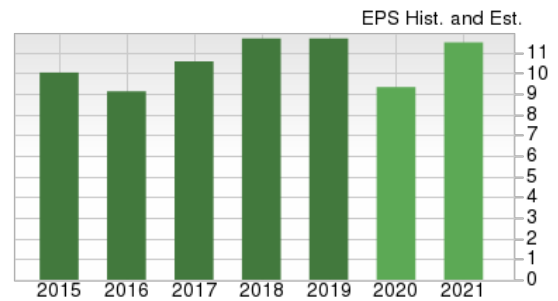
The **U.S. Workplace Solutions division (51.4% of 2019 Revenues)** consists of Retirement and Group Insurance segments. Retirement provides retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. Group Insurance provides a 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 lost 14.5% in the past year, compared with the industry's decline of 14.7%. Moreover, strong fundamentals are likely to help the stock gain 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.
- ▲ Prudential remains focused on repricing as well as moving toward lower risk and less capital-intensive products. This has enabled the company to achieve cost savings of \$45 million in the second quarter. It has already set a target of \$143 million cost savings for 2020, out of which \$75 million has been achieved year to date. The company aims to achieve cost savings target of \$500 million by 2022.
- ▲ Prudential undertakes several strategic initiatives, which poise it well for long-term growth. In May, its business unit Prudential Group Insurance collaborated with PlanSource Boost to enhance the process of choosing and managing group benefits. Last year, Prudential acquired Assurance to bolster financial wellness solutions business. 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. Such initiatives bode well as it expands the company's existing set of capabilities.
- ▲ Prudential has a strong international presence that gives it more organic growth opportunities than its peers. Expanding its international business (mainly in Japan 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. Sales in Japan declined in the third quarter due to COVID-19 restrictions imposed on sales activities. Nevertheless, the sales have somewhat rebounded in June following the easing of stringent lockdown measures by the state. 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 with focus on directing earnings mix to higher-growth markets. To that end, the company divested Prudential of Korea business, the proceeds of which worth \$1.7 billion are expected by the end of 2020. The company also looks for strategic alternatives in the form of divesting for Taiwan business.
- ▲ 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 12 years. Its dividend yield of 6.2% compares favorably with the industry's figure of 2.6%. In December 2019, it authorized the repurchase of 2 billion shares for 2020. However, the company has suspended share buyback in the wake of the pandemic. Prudential envisions about 65% free cash flow ratio of adjusted operating income on average over time.

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

The company has a solid liquidity that includes \$4 billion credit facility and access to \$3 billion of funding from a contingent capital facility.

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 repricing and repositioning of products, and impact from COVID-19 outbreak to weigh on individual annuities sales in the near term and sales at Individual Life.
- ▼ Prudential anticipates third-quarter earnings of \$2.63 per share, which includes net mortality claims of around \$55 million. Fatality rates due to the COVID-19 pandemic, which has lowered to some extent, are anticipated to reduce operating income by \$70 million.
- ▼ Over the last few years, the company has been witnessing increase in expenses. However, benefits and expenses of the company fell 0.8% year over year in the first half of 2020 owing to lower interest credited to policyholders' account balances and dividends to policyholders. Despite reduction in benefits and expenses, net margin came in at a negative figure of 0.2%, which compares unfavorably with year-over-year figure of 6.4%. In relation to the pandemic, the company expects to incur operating costs of \$25 million in the third quarter. Nevertheless, the company expects implementation costs to reduce by \$130 million in the third quarter. For the second half of 2020, Prudential anticipates incremental operating costs of \$60 million due to the pandemic, out of which \$40 million is likely to be incurred in the third quarter. Travel and entertainment expenses are expected to decline by \$30 million in the second half of the year.
- ▼ Prudential's debt level has been increasing over the last few quarters with deterioration in debt to capital ratio. In March 2020, the company issued \$1.5 billion of senior debt to address maturities through 2021. Debt level at second quarter end increased 3.5% from 2019-end level. However, debt to capital for second-quarter end improved 10 basis points from 2019 end to 24.3%. Increasing debt level has also been inducing increase in interest expenses too, which however, remained flat in the first half of 2020.
- ▼ Return on equity, a profitability measure, represents how efficiently a company is utilizing shareholder's funds to generate earnings. Prudential's return on equity of 6.1% compares unfavorably with the industry average of 8.3%.

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

Last Earnings Report

Prudential Q2 Earnings Beat Estimates, Decline Y/Y

Prudential's second-quarter 2020 operating net income of \$1.85 per share beat the Zacks Consensus Estimate by 7.6%. However, the bottom line declined 41.1% year over year owing to lower contributions from U.S. Individual Solutions, U.S. Workplace Solutions and International Businesses.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	1.14%
EPS Surprise	7.56%
Quarterly EPS	1.85
Annual EPS (TTM)	9.72

Operational Update

Total revenues of \$13.1 billion plunged 7.3% year over year due to lower premiums, net investment income, and decrease in asset management fees, commissions and other income. However, the decline was partly mitigated by higher policy charges and fee income. Moreover, the top line outpaced the Zacks Consensus Estimate by 1.1%.

Total benefits and expenses of \$12.1 billion inched up 0.6% year over year in the quarter. This increase in expenses was mainly due to higher interest expense, and general and administrative expenses.

Quarterly Segment Update

Prudential Global Investment Management (PGIM) reported adjusted operating income of \$324 million, which improved 22.7% year over year. The upside can be attributed to improved Other Related revenues courtesy of increased strategic investment earnings, lower expenses and higher asset management fees. PGIM assets under management improved 9% year over year to \$1.394 trillion at the end of the reported quarter, driven by market appreciation and public fixed income inflows, partly offset by public equity outflows.

U.S. Workplace Solutions' adjusted operating income was \$286 million, which plunged 47.8% from the year-ago quarter owing to lower contribution from Retirement and Group Insurance business.

U.S. Individual Solutions reported adjusted operating income of \$185 million, down 43.4% mainly due to lower contribution from Individual Annuities, partly offset by lower loss reported in Individual Life.

International delivered adjusted operating income of \$693 million, down 12.3% from the year-earlier period, due to lower net investment spread results and increased expenses. These were partially offset by business growth, higher earnings from joint venture investments due to market performance and more favorable underwriting results.

Corporate and Other incurred adjusted operating loss of \$541 million, wider than loss of \$335 million reported a year ago. The deterioration reflects increased expenses and lower net investment income, partly mitigated by higher income from pension and other employee benefit plans.

Financial Update

Cash and cash equivalents of \$21.1 billion at quarter end increased 29.5% from 2019 end level. Debt balance totaled \$21.3 billion as of Jun 30, 2020, up 3.5% from the level as of 2019 end. As of Jun 30, 2020, Prudential Financial's assets under management increased 7.2% year over year to \$1.6 trillion.

Adjusted book value per common share, a measure of the company's net worth, came in at \$92.07 as of Jun 30, 2020, down 5.2% year over year.

Operating return on average equity was 7.8% in the second quarter, contracting 490 basis points year over year.

Recent News

Prudential Declares Quarterly Dividend – Aug 11, 2020

The company's board of directors has announced a quarterly dividend of \$1.10 per share, which will be paid on Sep 17, 2020 to shareholders of record as of Aug 25. This indicates the company's commitment of returning value to shareholders.

Prudential to Sell Taiwan Unit to Streamline Business – Aug 11, 2020

Prudential has inked a deal with Taiwan-based Taishin Financial Holding to sell its insurance arm — The Prudential Life Insurance Company of Taiwan Inc. However, the completion of the new transaction is subject to customary approval. Per the agreement, Prudential Financial will sell 100% of its life insurance business in Taiwan.

Valuation

Prudential shares are down 24.6% and 14.5% 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 21.6% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.7% and 7%, respectively.

The S&P 500 index is down 4.1% in the year-to-date period but up 15% in the past year.

The stock is currently trading at 6.63x forward 12-month earnings, which compares to 8.65x for the Zacks sub-industry, 16.76x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.8x and as low as 3.22x, with a 5-year median of 7.75x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 6.94x 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	6.63	8.65	16.76	22.8
	5-Year High	11.8	12.61	16.76	22.8
	5-Year Low	3.22	6.62	11.59	15.25
	5-Year Median	7.75	9.98	14.26	17.58
P/S F12M	Current	0.5	0.77	6.22	3.67
	5-Year High	1	1.74	6.66	3.67
	5-Year Low	0.26	0.77	4.96	2.53
	5-Year Median	0.74	1.26	6.06	3.05
P/B TTM	Current	0.42	1.09	2.47	4.68
	5-Year High	1.06	1.98	2.91	4.68
	5-Year Low	0.25	0.85	1.72	2.83
	5-Year Median	0.79	1.48	2.53	3.74

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Aegon NV (AEG)	Neutral	4
Aflac Incorporated (AFL)	Neutral	3
Cigna Corporation (CI)	Neutral	3
MetLife, Inc. (MET)	Neutral	3
Prudential Public Limited Company (PUK)	Neutral	3
Swiss Re Ltd. (SSREY)	Neutral	4
American International Group, Inc. (AIG)	Underperform	4
Zurich Insurance Group Ltd. (ZURVY)	Underperform	4

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	PRU	X Industry	S&P 500	AIG	CI	MET
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	C	-	-	B	A	B
Market Cap	27.94 B	3.30 B	23.61 B	27.55 B	66.97 B	36.82 B
# of Analysts	5	3	14	6	14	4
Dividend Yield	6.22%	2.22%	1.69%	4.00%	0.02%	4.54%
Value Score	A	-	-	B	A	B
Cash/Price	2.08	0.34	0.07	1.14	0.13	1.18
EV/EBITDA	-1.39	4.19	13.32	3.17	7.59	1.67
PEG Ratio	0.84	1.29	2.95	1.23	0.89	2.37
Price/Book (P/B)	0.42	0.80	3.22	0.44	1.42	0.48
Price/Cash Flow (P/CF)	5.36	7.10	12.79	3.06	6.73	6.91
P/E (F1)	7.58	9.96	22.02	12.30	9.86	7.39
Price/Sales (P/S)	0.49	0.82	2.57	0.57	0.43	0.54
Earnings Yield	13.19%	9.95%	4.29%	8.13%	10.14%	13.53%
Debt/Equity	0.30	0.24	0.77	0.63	0.67	0.20
Cash Flow (\$/share)	13.20	3.45	6.94	10.45	27.12	5.87
Growth Score	F	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	5.05%	10.16%	10.41%	2.87%	20.75%	5.58%
Proj. EPS Growth (F1/F0)	-20.15%	-9.20%	-6.51%	-43.36%	8.45%	-10.11%
Curr. Cash Flow Growth	2.41%	7.19%	5.22%	41.46%	138.17%	6.34%
Hist. Cash Flow Growth (3-5 yrs)	1.57%	1.69%	8.55%	-3.88%	31.41%	-4.47%
Current Ratio	0.13	0.47	1.34	0.34	0.74	0.16
Debt/Capital	23.26%	20.31%	44.59%	38.47%	40.17%	16.93%
Net Margin	-0.25%	4.27%	10.13%	-9.46%	3.41%	10.65%
Return on Equity	6.13%	6.79%	14.59%	3.28%	15.89%	7.71%
Sales/Assets	0.06	0.20	0.51	0.09	0.99	0.09
Proj. Sales Growth (F1/F0)	-5.21%	0.00%	-1.45%	-7.51%	11.17%	-7.00%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	1.73%	0.34%	-0.17%	1.65%	-0.34%	1.99%
1 Week Price Chg	7.24%	3.21%	2.30%	-4.60%	3.18%	2.30%
4 Week Price Chg	14.26%	4.76%	6.41%	3.86%	0.12%	7.07%
12 Week Price Chg	28.67%	22.78%	15.42%	15.74%	-4.90%	25.25%
52 Week Price Chg	-15.36%	-13.97%	2.88%	-43.02%	7.62%	-13.55%
20 Day Average Volume	2,535,309	151,333	2,007,486	6,611,618	2,022,263	5,395,628
(F1) EPS Est 1 week change	1.15%	0.00%	0.00%	1.63%	0.10%	-0.05%
(F1) EPS Est 4 week change	1.48%	1.69%	1.84%	-8.83%	0.31%	-0.05%
(F1) EPS Est 12 week change	0.60%	0.54%	2.40%	-12.51%	0.43%	1.15%
(Q1) EPS Est Mthly Chg	-0.98%	0.00%	0.72%	-4.05%	-8.36%	4.05%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Momentum Score	D
VGM Score	C

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.

Disclosures

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