

Prudential Financial(PRU)

\$54.26 (As of 05/12/20)

Price Target (6-12 Months): **\$57.00**

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:B

Value: A

Growth: B

Momentum: D

Summary

Prudential's first-quarter 2020 bottom line missed estimates. Yet 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. Nevertheless, policy of returning value to shareholders bodes well. However, exposure to low interest rates and products like annuities and universal life yielding minimum return bothers. Prudential expects lower sales at individual annuities and Individual Life. Elevated expenses continue to drag margin. It expects second quarter bottom line to be down \$1.22 per share due to lower net investment income and lower fees and costs related to the pandemic. Shares of the company have underperformed the industry year to date.

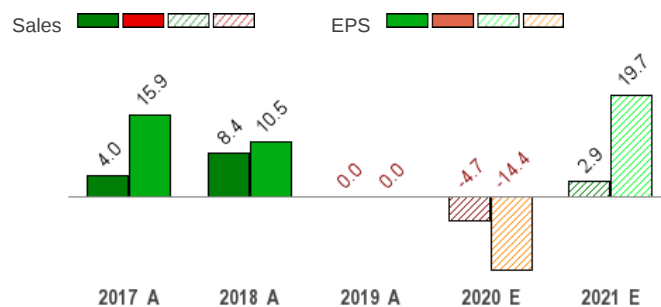
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.56 - \$38.62
20 Day Average Volume (sh)	3,034,310
Market Cap	\$21.4 B
YTD Price Change	-42.1%
Beta	1.71
Dividend / Div Yld	\$4.40 / 8.1%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 44% (141 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-18.3%
Last Sales Surprise	-10.0%
EPS F1 Est- 4 week change	-14.7%
Expected Report Date	07/29/2020
Earnings ESP	-14.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	14,148 E	13,202 E	13,516 E	13,640 E	56,960 E
2020	13,334 A	13,655 E	14,090 E	14,246 E	55,373 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	\$3.10 E	\$3.13 E	\$3.18 E	\$2.93 E	\$11.98 E
2020	\$2.32 A	\$1.96 E	\$2.87 E	\$2.73 E	\$10.01 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

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.

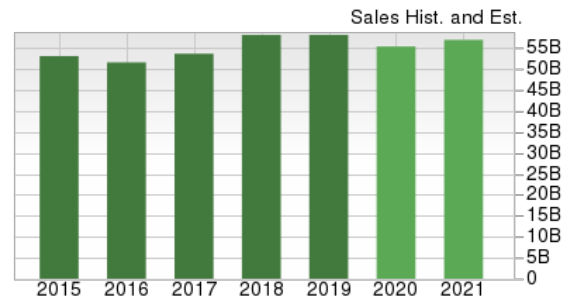
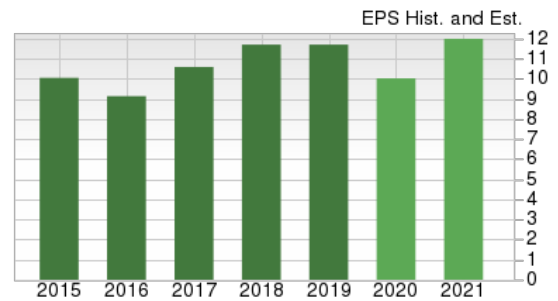
The **U.S. Workplace Solutions division (51.4% of 2019 Revenues)** consists of Retirement and Group Insurance segments. Retirement provides retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. Group Insurance provides a 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 42.1% year to date, wider than the industry's decrease of 31.7%. 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. The company remains focused on repricing as well as moving toward lower risk and less capital-intensive products. Nonetheless, the company expects adverse impacts from the COVID-19 pandemic to lower second-quarter earnings by about \$135 million and 2020 earnings by \$200 million.
- ▲ 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. It expects \$140 million of these costs savings to be achieved in 2020. 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 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 with focus on directing earnings mix to higher-growth markets. To that end, the company agreed to divest Prudential of Korea business and look for strategic alternatives 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 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. 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.

The company has a solid liquidity that includes \$4 billion credit facility as well as access to \$1.5 billion of funding from a contingent capital facility.

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 repricing and repositioning of products as well as impact from COVID 19 outbreak to drag individual annuities sales in the near term and sales at Individual Life.
- ▼ 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 the first quarter of 2020 attributable to higher insurance and annuity benefits, deferral of acquisition costs and amortization of acquisition costs. An increase in expenses can cause margin contraction. Net margin contracted 100 basis points year over year in the first quarter of 2020. In relation to the pandemic, the company expects to incur costs of \$114 million in the second quarter and \$230 million in 2020, stemming from sales support, employee health protection, technology and other expenses.
- ▼ 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 first quarter end increased 10% sequentially with debt to capital deteriorating 270 basis points sequentially to 27.1 and comparing unfavorably with industry average of 21.2. Increasing debt level has also been inducing increase in interest expenses too. Interest expenses increased 0.3% sequentially in the first quarter of 2020.
- ▼ 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 0.5% compares unfavorably with the industry average of 0.8%.

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

Last Earnings Report

Prudential Q1 Earnings and Revenues Miss Estimates

Prudential Financial first-quarter 2020 operating net income of \$2.32 per share missed the Zacks Consensus Estimate by 18.3%. The bottom line declined 22.7% year over year on lower contributions from Prudential Global Investment Management (PGIM), U.S. Individual Solutions, U.S. Workplace Solutions as well as International Businesses.

Behind the Headlines

Total revenues of \$13.3 billion were down 2% year over year due to lower asset premiums, policy charges and fee income and decrease in asset management fees, commissions and other income. The top line missed the Zacks Consensus Estimate by about 10%.

Total benefits and expenses of \$12.1 billion were up 1% year over year in the quarter. This increase in expenses was mainly attributable to higher insurance and annuity benefits, deferral of acquisition costs and amortization of acquisition costs.

Quarterly Segment Update

PGIM reported adjusted operating income of \$164 million, down nearly 23% year over year. The downside was attributable to lower Other Related revenues as a result of lower strategic investment earnings, and higher expenses, partially offset by higher asset management fees attributable to increase in average assets under management.

U.S. Workplace Solutions' adjusted operating income was \$289 million, down 4.9% from the year-ago quarter on lower contribution from Retirement as well as Group Insurance business.

U.S. Individual Solutions reported adjusted operating income of \$353 million, down 38.8% attributable to lower contribution from Individual Annuities and Individual Life.

International delivered adjusted operating income of \$751 million, down 18.5% from the year-earlier period, attributable to lower net investment spread results, higher expenses, lower earnings from joint venture investments due to market performance, and less favorable underwriting results. These items were partially offset by business growth.

Corporate and Other Operations incurred adjusted operating loss of \$342 million, narrower than \$412 million loss a year ago. The improvement reflects lower expenses and higher income from pension and other employee benefit plans, partially offset by lower net investment income.

Share Repurchase Update

Prudential returned capital worth \$945 million to its shareholders in the first quarter of 2020.

Financial Update

Cash and cash equivalents of \$31.6 billion at quarter end increased 93.8% from 2019 end level.

Debt balance totaled \$22.7 billion as of Dec 31, 2019, up 10.1% from the level as of 2019 end.

As of Mar 31, 2020, Prudential Financial's assets under management increased 2% year over year to \$1.481 trillion, up year over year, driven by reflecting market appreciation and fixed income inflows, partially offset by equity outflows.

Adjusted book value per common share, a measure of the company's net worth, came in at \$99.71 as of Mar 31, 2020, up 3% year over year.

Operating return on average equity was 9.3% in the first quarter, contracting 330 basis points year over year.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-9.99%
EPS Surprise	-18.31%
Quarterly EPS	2.32
Annual EPS (TTM)	11.01

Recent News

Prudential to sell Korean unit to KB Financial for \$1.9 billion – Apr 10, 2020

Prudential inked a deal with KB Financial Group Inc. (KB) to sell its South Korean insurance arm, The Prudential Life Insurance Company of Korea, Ltd. The new transaction, following the fulfillment of the customary closing conditions and regulatory approvals, is projected to close by the end of 2020. As per the agreement, Prudential Financial will sell 100% of its life insurance business in Korea for 2.3 trillion Korean Won or US \$1.9 billion.

Valuation

Prudential shares are down 42.1% and 45% 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 31.7% and 28.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 27.3% and 21.5%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period but up 1% in the past year.

The stock is currently trading at 5.06x forward 12-month earnings, which compares to 7.69x for the Zacks sub-industry, 14.78x for the Zacks sector and 20.76x 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 7.88x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 5.31x 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	5.06	7.69	14.78	20.76
	5-Year High	11.8	12.61	16.18	20.79
	5-Year Low	3.22	6.62	11.58	15.19
	5-Year Median	7.88	10.15	13.94	17.45
P/S F12M	Current	0.38	0.88	5.81	3.24
	5-Year High	1	1.74	6.7	3.44
	5-Year Low	0.26	0.88	4.99	2.54
	5-Year Median	0.8	1.27	6.05	3.02
P/B TTM	Current	0.35	1.13	2.03	3.77
	5-Year High	1.06	1.98	2.90	4.55
	5-Year Low	0.25	0.85	1.71	2.84
	5-Year Median	0.81	1.48	2.53	3.65

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (141 out of 253)



Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	PRU	X Industry	S&P 500	AIG	CI	MET
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	D	A	A
Market Cap	21.43 B	2.92 B	19.25 B	22.87 B	69.94 B	29.38 B
# of Analysts	6	2	14	6	13	5
Dividend Yield	8.11%	3.12%	2.21%	4.82%	0.02%	5.68%
Value Score	A	-	-	A	A	A
Cash/Price	2.62	0.38	0.06	1.17	0.08	1.29
EV/EBITDA	-3.54	3.71	11.70	2.64	8.12	0.42
PEG Ratio	0.58	1.09	2.61	NA	0.93	NA
Price/Book (P/B)	0.35	0.77	2.61	0.38	1.56	0.42
Price/Cash Flow (P/CF)	4.11	6.91	10.36	2.54	6.99	5.51
P/E (F1)	5.19	8.22	19.13	8.33	10.34	5.96
Price/Sales (P/S)	0.37	0.74	1.96	0.44	0.45	0.41
Earnings Yield	18.45%	12.02%	5.00%	12.02%	9.68%	16.77%
Debt/Equity	0.33	0.27	0.75	0.58	0.71	0.21
Cash Flow (\$/share)	13.20	3.27	7.01	10.45	27.12	5.87
Growth Score	B	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	5.79%	8.44%	10.82%	-1.48%	19.22%	4.04%
Proj. EPS Growth (F1/F0)	-14.35%	-1.99%	-10.31%	-30.54%	7.58%	-11.13%
Curr. Cash Flow Growth	2.41%	9.34%	5.83%	41.46%	138.17%	6.34%
Hist. Cash Flow Growth (3-5 yrs)	1.57%	1.57%	8.52%	-3.88%	31.41%	-4.47%
Current Ratio	0.14	0.48	1.27	0.27	0.67	0.16
Debt/Capital	24.81%	21.84%	44.25%	36.41%	41.65%	17.08%
Net Margin	5.16%	4.72%	10.59%	8.59%	3.19%	12.37%
Return on Equity	7.13%	6.45%	16.33%	4.31%	15.05%	8.85%
Sales/Assets	0.07	0.21	0.55	0.10	0.99	0.10
Proj. Sales Growth (F1/F0)	-4.75%	0.00%	-2.53%	-4.23%	10.22%	-3.61%
Momentum Score	D	-	-	F	A	C
Daily Price Chg	-4.89%	-2.39%	-2.55%	-3.63%	0.30%	-4.71%
1 Week Price Chg	-0.94%	0.18%	3.23%	15.69%	1.17%	1.56%
4 Week Price Chg	-7.42%	-6.20%	-0.84%	2.99%	2.12%	-5.98%
12 Week Price Chg	-41.77%	-34.93%	-21.82%	-45.83%	-14.59%	-37.55%
52 Week Price Chg	-44.96%	-31.25%	-10.27%	-48.43%	22.07%	-31.85%
20 Day Average Volume	3,034,310	173,651	2,520,117	8,280,375	1,775,485	7,125,636
(F1) EPS Est 1 week change	-11.84%	0.00%	0.00%	-6.23%	0.00%	-6.31%
(F1) EPS Est 4 week change	-14.66%	-8.52%	-6.29%	-25.48%	0.17%	-8.52%
(F1) EPS Est 12 week change	-18.14%	-13.78%	-16.21%	-37.08%	-0.54%	-10.87%
(Q1) EPS Est Mthly Chg	-42.64%	-15.16%	-12.28%	-17.81%	3.65%	-22.67%

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	B
Momentum Score	D
VGM Score	B

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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