

Prudential Financial(PRU)

\$90.35 (As of 01/27/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Prudential Financial continues to gain from strong asset-based businesses, improved margins in Group Insurance business and solid international operations. High performing asset management business, deeper reach in the pension risk transfer market, strong balance sheet and an efficient capital management are catalysts for long-term growth. Its international operations provide diversification benefits. Recently, the company bought Assurance to boost its financial wellness solutions business and to strengthen its distribution capabilities. The shares of Prudential Financial have underperformed the industry in a year's time. However, exposure to low interest rates as well as to products like annuities and universal life, which yield minimum returns, is a matter of concern. Elevated expenses due to higher general expenses weigh on margin expansion.

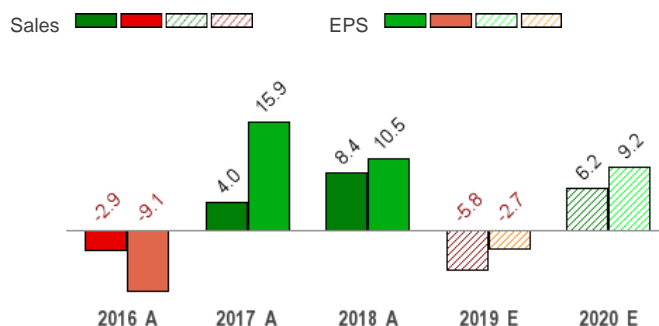
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$106.40 - \$77.65
20 Day Average Volume (sh)	1,757,551
Market Cap	\$36.3 B
YTD Price Change	-3.6%
Beta	1.59
Dividend / Div Yld	\$4.00 / 4.4%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 40% (103 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	-9.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/04/2020
Earnings ESP	-3.8%

P/E TTM	7.7
P/E F1	7.3
PEG F1	0.8
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	15,252 E	14,633 E	14,925 E	14,747 E	58,155 E
2019	13,648 A	14,106 A	12,928 A	14,230 E	54,756 E
2018	12,875 A	13,043 A	14,432 A	17,780 A	58,130 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.02 E	\$3.21 E	\$3.24 E	\$3.10 E	\$12.41 E
2019	\$3.00 A	\$3.14 A	\$3.22 A	\$2.07 E	\$11.37 E
2018	\$3.08 A	\$3.01 A	\$3.15 A	\$2.44 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 01/27/2020. The reports text is as of 01/28/2020.

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.

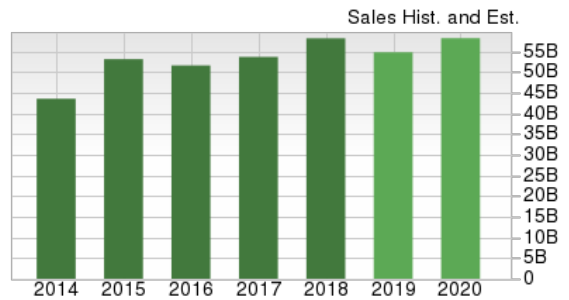
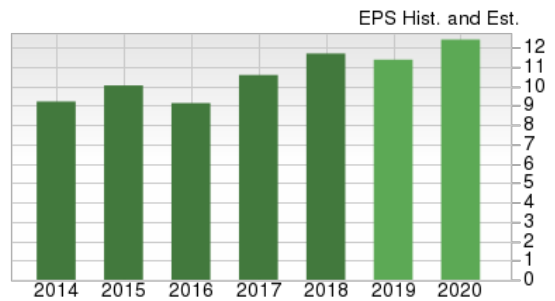
The **U.S. Workplace Solutions division (38.2% of 2018 Revenues)** consists of Retirement and Group Insurance segments. Retirement provides retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. Group Insurance provides a 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 (37.8%)** 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 (18.4%)** 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 (5.6%)** 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 2.4% in the past year, underperforming the industry's increase of 6.7%. Nonetheless, the impressive price performance is expected to drive the prices higher.
- ▲ 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 in achieving 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 increased dividend by average of 16% in the last five years. Prudential envisions about 65% free cash flow ratio of adjusted operating income on average over time. The company debt levels have also declined and its debt to equity ratio of 31.1% is lower than the industry average of 41.7%.

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 two years, the company has been witnessing increase in expenses. The trend persisted through the first nine months of 2019 as the same increased 1.3% on account of higher interest credited to policyholders' account balances, interest expense, amortization of acquisition costs, general and administrative expense. 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 0.7.

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

Last Earnings Report

Prudential Financial (PRU) Q3 Earnings Top, Revenues Miss

Prudential Financial, Inc.'s third-quarter 2019 operating net income of \$3.22 per share beat the Zacks Consensus Estimate by 4.6%. Moreover, the bottom line increased 2.2% year over year.

Better-than -expected results were driven by increased contribution at Prudential Global Investment Management (PGIM) and U.S. Workplace Solutions segments. This upside was partly offset by soft at U.S. Individual Solutions and International Insurance segments.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-9.42%
EPS Surprise	4.55%
Quarterly EPS	3.22
Annual EPS (TTM)	11.80

Behind the Headlines

Total revenues of \$12.9 billion were down 10.4% year over year due to lower premiums and asset management fees, commissions and other income. The top line missed the Zacks Consensus Estimate by 9.7%.

Total benefits and expenses of \$11.3 billion decreased 11.7% 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 \$232 million, up 0.9% year over year. This upside was attributable to higher asset management fees due to an increase in average assets under management, and higher other related revenues, mostly offset by higher expenses.

PGIM assets under management were \$1.3 trillion at the end of the reported quarter, up 9% year over year.

U.S. Workplace Solutions' adjusted operating income was \$392 million, up 31.5% from the year-ago quarter on higher contribution from Retirement as well as Group Insurance segment.

U.S. Individual Solutions reported adjusted operating income of \$518 million, down 17% from the prior-year quarter, attributable to lower earnings from Individual Life business.

International Insurance delivered adjusted operating income of \$791 million, down 11.1% from the year-earlier period owing to lower income at both Life Planner Operations and Gibraltar Life & Other Operations.

Corporate and Other Operations incurred adjusted operating loss of \$281 million, narrower than loss of \$374 million in the year-ago quarter.

Financial Update

Cash and cash equivalents of \$18.3 billion at quarter end increased 46.7% year over year.

Debt balance totaled \$20.6 billion as of Sep 30, 2019, up 4.1% from the level as of 2018 end.

As of Sep 30, 2019, Prudential Financial's assets under management and administration increased 8.7% year over year to \$1.8 trillion.

Adjusted book value per common share, a measure of the company's net worth, came in at \$99.67 as of Sep 30, 2019, up 4.7% year over year.

Operating return on average equity was 13.3% in the third quarter, contracting 30 basis points year over year.

Prudential Financial returned \$1.4 billion to its shareholders and repurchased \$1 billion of its common stock in the third quarter.

Business Development

In the third quarter, Prudential Financial expanded its financial opportunity to a wider demographic. Its recent acquisition of Assurance IQ expanded its distribution capabilities with a direct-to consumer platform. The company is on track to achieve \$50 million in run-rate margin expansion by the end of 2019 and \$500 million by the end of 2022.

Recent News

Prudential Financial Announces Quarterly Dividend - Nov 11, 2019

The board of directors of Prudential Financial declared quarterly cash dividend of \$1.00 per share to shareholders of record on Nov 26. The dividend will be paid out on Dec 12, 2019.

Valuation

Prudential shares are down 2.4% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 6.7% and 10.1%, respectively.

The S&P 500 index is up nearly 23.9% in the past year.

The stock is currently trading at 7.22X forward 12-month earnings, which compares to 9.25X for the Zacks sub-industry, 14.52X for the Zacks sector and 18.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.8X and as low as 5.76X, with a 5-year median of 8.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 7.59X 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	7.22	9.25	14.52	18.93
	5-Year High	11.8	12.61	16.21	19.34
	5-Year Low	5.76	8.4	12.01	15.18
	5-Year Median	8.02	10.22	13.98	17.45
P/S F12M	Current	0.62	1.34	6.53	3.52
	5-Year High	1	1.74	6.61	3.52
	5-Year Low	0.54	0.89	5.2	2.54
	5-Year Median	0.8	1.33	6.04	3
P/B TTM	Current	0.55	1.36	2.81	4.5
	5-Year High	1.06	1.98	2.89	4.55
	5-Year Low	0.51	0.94	1.83	2.85
	5-Year Median	0.82	1.46	2.51	3.62

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 40% (103 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	PRU Neutral	X Industry	S&P 500	AIG Neutral	CI Neutral	MET Neutral
VGM Score	A	-	-	A	A	B
Market Cap	36.32 B	5.00 B	23.86 B	43.61 B	74.67 B	46.06 B
# of Analysts	7	2.5	13	7	13	5
Dividend Yield	4.43%	2.02%	1.81%	2.55%	0.02%	3.51%
Value Score	A	-	-	B	B	A
Cash/Price	1.27	0.23	0.04	0.58	0.06	0.76
EV/EBITDA	1.52	7.73	13.94	7.73	21.76	4.20
PEG Ratio	0.81	1.12	2.00	0.99	0.92	0.93
Price/Book (P/B)	0.55	1.12	3.25	0.65	1.67	0.68
Price/Cash Flow (P/CF)	7.20	10.69	13.46	6.90	17.91	9.74
P/E (F1)	7.28	10.74	18.67	9.89	10.74	8.22
Price/Sales (P/S)	0.62	1.05	2.62	0.86	0.58	0.68
Earnings Yield	13.74%	9.21%	5.35%	10.11%	9.31%	12.16%
Debt/Equity	0.29	0.21	0.72	0.53	0.76	0.21
Cash Flow (\$/share)	12.54	3.07	6.92	7.26	11.16	5.14
Growth Score	B	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	5.94%	4.22%	10.68%	-13.65%	17.05%	0.36%
Proj. EPS Growth (F1/F0)	9.16%	10.04%	7.51%	10.32%	9.89%	10.19%
Curr. Cash Flow Growth	6.28%	9.66%	13.40%	5.26%	31.48%	7.75%
Hist. Cash Flow Growth (3-5 yrs)	0.73%	-0.76%	8.78%	-10.95%	10.93%	-5.77%
Current Ratio	0.11	0.38	1.22	0.26	0.63	0.15
Debt/Capital	22.41%	17.26%	42.92%	34.33%	43.26%	17.40%
Net Margin	6.67%	6.85%	11.39%	3.56%	3.30%	10.82%
Return on Equity	8.45%	6.77%	17.19%	4.17%	12.79%	8.82%
Sales/Assets	0.07	0.23	0.54	0.10	0.84	0.09
Proj. Sales Growth (F1/F0)	4.18%	3.75%	4.09%	1.18%	6.19%	2.95%
Momentum Score	D	-	-	C	C	A
Daily Price Chg	-3.39%	-1.31%	-1.40%	-1.82%	-2.94%	-2.30%
1 Week Price Chg	-3.69%	-1.09%	-1.09%	-3.48%	-3.06%	-2.55%
4 Week Price Chg	-2.72%	-1.95%	-0.25%	-1.71%	-1.49%	-1.20%
12 Week Price Chg	-4.39%	0.40%	3.64%	-8.74%	9.19%	5.25%
52 Week Price Chg	-2.42%	11.79%	18.08%	17.07%	2.50%	10.99%
20 Day Average Volume	1,757,551	126,112	1,615,215	3,633,559	1,432,560	4,890,615
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.27%
(F1) EPS Est 4 week change	-0.11%	0.00%	0.00%	0.21%	0.00%	0.42%
(F1) EPS Est 12 week change	-5.91%	0.12%	-0.17%	-1.09%	-0.49%	1.44%
(Q1) EPS Est Mthly Chg	-0.39%	0.00%	0.00%	-0.91%	0.03%	0.00%

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	F
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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