Prudential Financial Inc.
Ticker: PRU
Sector: Financial
Industry: Insurance

Intrinsic Value: $105 - 160
Current Price: $80.88
Stop Loss: $68
Upside Review: $98

TTM P/E: 11.63
Forward P/E: 8.35
Beta: 1.35

Market Cap: $37.4 billion
Dividend Yield: $2.12 (2.1%)
52 Week Range: $77.3– $94.3

Business Summary: A Fortune Global 500 and Fortune 500 company whose subsidiaries provide insurance, investment management, and other financial products and services to both retail and institutional customers throughout the United States and in over 40 other countries. Principal products and services provided include life insurance, annuities, mutual funds, pension and retirement related investments, administration and asset management, securities brokerage services, and commercial and residential real estate in many states of the U.S.

Industry Trends: Improvements in life insurance earnings may extend through 2014, boosted by financial market gains and product demand. This segment is expected to be the clear beneficiary of a rising interest rate environment. Although these firms incur losses as the value of longer-duration bonds goes down with rising interest rates, they will hold investments until maturity and no actual losses will be realized.

Investment Thesis: Prudential, an industry leader in the life insurance space, has benefited from stronger earnings over the last couple of years as well as higher profitability measures. It can profit from further premium growth in both the U.S. and Japan as well as from a solidifying economic recovery. With a lower-than-average PE and PEG, PRU is undervalued.

Competitive Analysis:
With a return on equity of more than 13.5% in 2013, Prudential has materially improved the efficiency of its operations since 2010 which should serve the company well going into an expansionary phase of the business cycle. Moreover, Prudential Financial has been growing strongly over the last couple of years as it sought to capitalize on oversea growth opportunities especially in the Japanese market.

Pros:
- The company posted earnings of $2.49 a share, beating VL's estimate of $2.30 and rising 8% over last year's figure.
- International operations are growing nicely, and should continue to do so throughout the rest of the year.
- Recently signed three deals valued at more than one billion are tapping into salaried retiree benefit obligations.
- Offer good 3 to 5 year appreciation potential. Moreover, Prudential should see substantial benefits in its main underwriting business once the interest rates rise.
- Management is committed to returning capital to shareholders

Risk Factors:
- The stock's rise over the last year has already helped drive it to a level which is relatively expensive compared to the rest of its industry.
- Recent lower rates may hurt annuity sales, product spreads and EPS growth

5 Year Stock Performance:

(Yahoo!)

Competitor Comparison:

Competitors Get Competito

Direct Competitor Comparison

	PRU	AIG	PVT1	MET	Industry
Market Cap:	37.71B	71.53B	N/A	56.20B	17.71B
Employees:	47,355	64,000	59,512[1]	65,000	5.70K
Qtrly Rev Growth (yoy):	0.35	-0.13	N/A	0.14	0.06
Revenue (ttm):	47.98B	64.33B	58.79B[1]	70.55B	13.31B
Gross Margin (ttm):	0.33	0.22	N/A	0.33	0.24
EBITDA (ttm):	6.49B	13.80B	N/A	8.81B	1.73B
Operating Margin (ttm):	0.13	0.14	N/A	0.12	0.10
Net Income (ttm):	2.86B	8.85B	741.70M[1]	4.45B	N/A
EPS (ttm):	6.20	5.99	N/A	3.93	1.48
P/E (ttm):	13.23	8.37	N/A	12.71	15.75
PEG (5 yr expected):	0.90	1.07	N/A	1.25	1.30
P/S (ttm):	0.79	1.11	N/A	0.79	1.07

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

Total Return Estimates
3 Yr FV Reversion: 11%
5 Yr FV Reversion: 8%

Key Valuation Assumptions
Est Revenue Growth: 9.50%
WACC: 11.52%
Expected Inflation: 1.7%
Terminal Growth Rate: 4%
10 Yr Risk Free Rate: 2.42%
Equity Risk Premium: 7.26%
Tax Rate: 28.00%

Key Financial Data
Est 2014 EPS: $10.30
Est 2015 EPS: $10.85
3-5 Yr Est EPS Growth: 10%
PEG (TTM): 0.90
Credit Quality: A (S&P)
ROE: 13.5%
ROA: 0.4%
Price/Book: 0.9
Price/Cash Flow: 3.2
Debt/Equity: 0.7

CSR Characteristics (PRU/Industry)
ESG: 16.23/19.6
Human Rights: 0/0
Emission Reduction: 0/0
Business Ethics Policy: 1/1
Equal Opportunity: 1/1
Environmental Disclosure: NA/16.29

Prepared by Ming Dai (October 18, 2014)