

Prudential Financial

Elevated expenses and higher tax rate drive 4Q23 miss in otherwise solid quarter

Reiterate Rating: NEUTRAL | PO: 113.00 USD | Price: 103.39 USD

4Q23 adjusted operating EPS of \$2.58

Prudential's 4Q23 adjusted operating EPS result came in below our forecast of \$2.72 and Street consensus \$2.61. The variance with our forecast is largely explained by elevated G&A expenses in the International segments and a higher effective tax rate. The higher tax rate was driven by true-up as a result of lower estimates for deductions related to foreign tax credits. Higher premiums and modestly higher asset management fees drove a beat within Institutional Retirement Strategies, which was offset by a miss in PGIM due to higher expenses. The remaining segments were in-line with our forecast.

PGIM assets increases despite continued outflows

PGIM assets grew 25% from the prior quarter, benefiting from the rally in equities in 4Q23 while fixed income assets saw mark-to-market gains as interest rates declined. Despite higher asset levels, clients withdrew \$13.5bn in assets, the 4th consecutive quarter of client outflows, totaling \$38.4bn net outflows in 2023. Real estate continues to be a drag on earnings, with the company attributing lower real estate returns to the lower other related revenues with management now expecting \$35-45mn per quarter.

Strong retirement flows following Netherlands expansion

Institutional Retirement Strategies reported robust sales of \$14.2bn, or \$16.4bn when accounting for group annuity sales. This marks the company's highest sales quarter since 3Q19. The \$14.2bn includes a \$9.2bn longevity risk transfer from the Netherlands as the company expands its geographic footprint. Similar to peers, Prudential has been experiencing favorable underwriting results in Group Insurance segment, with results appearing to be more sustainable in the long-term. Management has forecasted a lower benefits ratio going forward between 83-87% (previously 85-89%).

Price objective rises to \$113, remains Neutral

Our forward EPS forecasts rise following the quarter's results and company guidance. Our PO increases to \$113 (previously \$107), which is predicated upon a 95% of the peer P/E multiple (currently 8.2x from 8x prior) on 2025E EPS (rolled forward from 2024E). Prudential continues to de-risk the business and become more capital light which we expect to continue into 2024. With that being said, we believe shares currently capture this transformation, underlying our Neutral rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.31	11.62	13.65	14.85	16.20
GAAP EPS	(4.49)	6.74	13.65	14.85	16.20
EPS Change (YoY)	-29.3%	12.7%	17.5%	8.8%	9.1%
Consensus EPS (Bloomberg)			13.40	14.10	14.60
DPS	4.80	5.00	5.20	5.40	5.60
Valuation (Dec)					
P/E	10.0x	8.9x	7.6x	7.0x	6.4x
GAAP P/E	NM	15.3x	7.6x	7.0x	6.4x
Dividend Yield	4.6%	4.8%	5.0%	5.2%	5.4%

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	107.00	113.00
2024E EPS	13.00	13.65
2025E EPS	14.15	14.85
2026E EPS	15.40	16.20

Joshua Shanker
Research Analyst
BofAS
+1 347 821 9017
joshua.shanker@bofa.com

Grace Carter, CFA
Research Analyst
BofAS
grace.carter@bofa.com

Joseph Tumillo, CFA
Research Analyst
BofAS
joseph.tumillo@bofa.com

Cyril Onyango
Research Analyst
BofAS
cyril.onyango@bofa.com

Stock Data

Price	103.39 USD
Price Objective	113.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-2-7
52-Week Range	75.37 USD - 107.31 USD
Mkt Val (mn) / Shares Out (mn)	37,324 USD / 361.0
Free Float	99.7%
Average Daily Value (mn)	134.91 USD
BofA Ticker / Exchange	PRU / NYS
Bloomberg / Reuters	PRU US / PRU.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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iQprofileSM Prudential Financial

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	34,370	25,224	26,673	26,661	26,972
Net Investment Income	13,184	15,297	17,106	18,228	19,408
Total Revenue	59,545	50,894	54,901	56,294	58,101
Total Cost of Benefits and Claims	(40,299)	(31,173)	(34,132)	(34,765)	(35,658)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(53,513)	(45,128)	(48,533)	(49,483)	(50,868)
Pre-Tax Operating Earnings	6,032	5,766	6,368	6,811	7,233
Income Tax Expense	(1,168)	(1,230)	(1,430)	(1,559)	(1,651)
Operating Earnings After Tax	3,861	4,237	4,907	5,219	5,547
Net Income (Reported)	(1,672)	2,459	4,907	5,219	5,547
Diluted Shares	375	365	360	351	342
Operating Earnings Per Share	10.31	11.62	13.65	14.85	16.20
Net Income (Reported) Per Share	(4.49)	6.74	13.65	14.85	16.20

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	375,806	385,673	0	0	0
Total Cash and Investments	434,692	454,152	NA	NA	NA
Total Assets	689,029	721,123	725,564	729,292	732,327
Reserves	397,397	420,299	0	0	0
LT Debt	19,908	18,882	18,382	18,382	18,382
Total Liabilities	657,481	691,336	691,336	691,336	691,336
Total Equity	31,548	29,787	34,228	37,956	40,991
Total Equity (Ex FAS 115)	31,548	29,787	34,228	37,956	40,991
Book Value per Share (Reported)	82.48	76.77	90.49	103.97	115.30
Book Value per Share (Ex FAS 115)	92.74	94.71	103.12	112.36	122.70

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	26.4x	23.0x	22.6x	20.2x	18.5x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	6.3%	-26.6%	5.7%	0%	1.2%
Net Investment Income	-6.9%	16.0%	11.8%	6.6%	6.5%
Total Revenue	-0.4%	-14.5%	7.9%	2.5%	3.2%
Operating Earnings per Share	-29.3%	12.7%	17.5%	8.8%	9.1%
Asset	-26.8%	4.7%	0.6%	0.5%	0.4%
Reported Book Value per Share	4.9%	-6.9%	17.9%	14.9%	10.9%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	0.5%	0.6%	0.7%	0.7%	0.8%
Operating Margin	6.5%	8.3%	8.9%	9.3%	9.5%
Long Term Debt to Cap Ratio (Ex FAS 115)	38.7%	38.8%	34.9%	32.6%	31.0%
Net Income % Operating Income	126.0%	107.1%	100.6%	100.6%	100.6%
Amtz of DAC % Pretax Profit bef Amtz of DAC	18.6%	19.7%	19.1%	18.5%	18.0%

Company Sector

Insurance - Life

Company Description

Prudential Financial (PRU) is a global diversified life insurer with operations predominantly in the US and Japan. The US business underwrites and distributes annuities, life insurance, group benefits, asset management, and retirement products and solutions. The International businesses primarily operate in Japan through captive agency and independent agency distribution with a focus on life insurance.

Investment Rationale

PRU is positioned well in the U.S. across its businesses and is a clear leader in pension derisking, a fast growing market. The international businesses, which are primarily based in Japan, generate earnings growth and high ROEs despite a challenging environment. We believe a discount to peers is warranted given higher market sensitivity. Limited upside vs our PO informs our Neutral recommendation.

Stock Data

Average Daily Volume 1,304,851

Quarterly Earnings Estimates

	2023	2024
Q1	2.66A	3.38E
Q2	2.94A	3.47E
Q3	3.44A	3.39E
Q4	2.58A	3.41E



Price objective basis & risk

Prudential Financial (PRU)

Our \$113 price objective for PRU is based on a 5% discount to the current year-ahead life insurance P/E multiple (8x) on our 2025E EPS forecast. Prudential has de-risked its businesses, however it is still sensitive to changes in interest rates and equity markets.

Downside risks to the achievement of our PO are a weakness in credit and equity markets, lower than expected interest rates, and lower growth and returns in U.S. and international businesses, and lower than anticipated capital deployment. Upside risks to our PO are better than expected equity market returns and higher interest rates, higher than estimated growth and returns in U.S. and international businesses, and higher than anticipated capital deployment.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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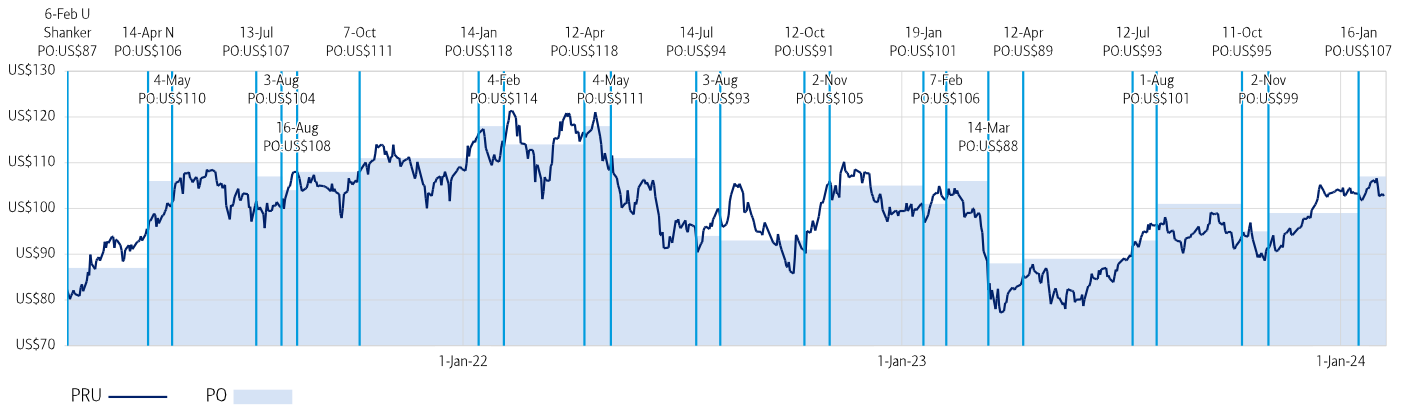
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Disclosures

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Prudential Financial (PRU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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