

9 Prudential – Oliver Steel, close 1898p, 2050p tgt, 8% upside

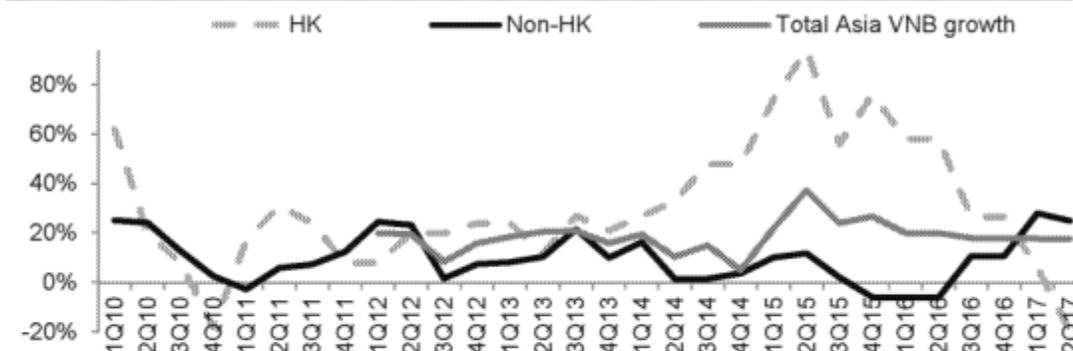
- Valuation is **simply too low** at just 5% premium to the wider sector (PE 11.5x 2019e vs broad sector at 10.8x), despite a **superior growth** rate (EPS CAGR to 2020 at 10%).
- **Long-term growth in Asia** is the heart of the investment case: insurance spend in Asia is only 2.5% of GDP vs 7.5% in the UK, and mutual fund FuM only 12% of GDP vs Europe at 75%. We forecast 13-14% pa growth in Asia.
- Pru holds **top 3 positions** in 9 of its 11 Asian markets. Asia is 36% of IFRS profits and 66% of new business profit.
- In the US (39% of profits), Pru is **no. 1 in the variable annuity market** by sales, with these accounting for only 12% of US retirement AuM. Consensus growth expectations are low following the DOL changes, with scope for positive surprise. Tax reform could also deliver further upside.
- The UK – 15% of IFRS earnings – is less exciting, but offers **potential capital release and 5% re-rating** from its annuity and other closed books.
- **Short-term headwinds have turned** in Pru's favour: Asia sales are more robust (double-digit growth in most countries, thus less reliant on mainland Chinese purchases in HK); fund management inflows are positive again; US sales are bottoming out. A partial offset is £ recovery (80% of earnings are non-GBP).
- **Capital position offers optionality**: group Solvency II capital ratio end 2016 at 201%, growing at 5pts p.a., with ability to remit up from each major unit.
- Catalysts: sale of UK annuity book, US tax changes

Related DB Research:

[Global Asset Managers: At a critical juncture \(Lakhani & Steel\)](#)

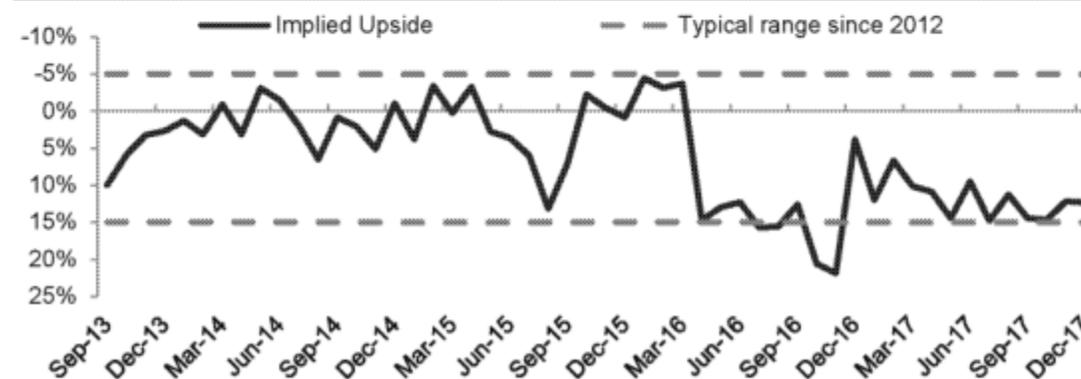
[European Insurers: 2018 - Safety and Optionality \(Steel\)](#)

Asian sales growth, the key group driver, is broadening out again



Source: Deutsche Bank estimates, Company data

Upside to target based on weighted peer sum of the parts



Source: Deutsche Bank estimates, DataStream consensus and share price