JARROD CAHN
Manager of Credo Global Equity

Companies have nationalities just like people – even multinationals.

Prudential is a British multinational life insurance and financial services company headquartered in London. It was founded in 1848, with door-to-door salesmen selling insurance for as low as a penny per contract to the working class.

An army of collection agents became known as 'the men from Pru', and the company became as British as a pint at the local pub. However, the world changes. Prudential now has secondary listings in Hong Kong, New York and Singapore. The UK represents less than 20% of the company's embedded value (a measure of the present value of the profit from the insurance contracts that have been sold). The jewel in the crown is the Asian business, which represents about half of the company's valuation.

The nationality of a company is not necessarily a good indication of what drives the value creation. The short-term market movements tend to be dominated by top-down macro or geopolitical news. That is the drama that makes for good headlines. The bottom line is more boring. The perception of Prudential as a 'British company' has meant that the share price has been hurt by perceived Brexit risks (in respect of its UK business), despite the relatively limited impact of that portion of the business on the profitability of the whole.

On the other hand, the Asian business (PruAsia) is particularly exciting, in line with familiar longer-term growth trends. GDP and population growth are high, with currently low penetration of insurance products and mutual funds. The expanding middle class is accelerating demand for health, protection and savings products. Management is also undertaking an impressive number of new digital and artificial intelligence initiatives, with product launches aimed at targeted segments. This all bodes well for future profit growth.

The US business (Jackson) has been comparatively somewhat flat. There is also no reason for Jackson, which sells variable annuities, and PruAsia to be lumped together longer term. This could mean a further split down the line, which could again result in the parts being valued more highly when they are directly accessible. This is because buyers may only be interested in specific areas of the business.

One way to estimate the value of the whole business is by the sum of its parts. Prudential is very cheap on this basis if you compare its Asian business with AIA, a competitor life insurance group with similar regional exposure. Prudential is going to be splitting its business into two parts (Asia and the US, and the UK), so a valuation in this way is not purely theoretical. There is, therefore, a catalyst that could unlock its conglomerate discount over the next 18 months.

Brexit has thrown up a lot of uncertainty. This can lead to oversimplification of the potential impact, in whatever direction we go. In Prudential, we believe this has provided an opportunity to own a global business with underlying strength and resilience.

Brexit has dominated a lot of people's thoughts. Meanwhile, in Asia and elsewhere, life (and life insurance) goes on. ●

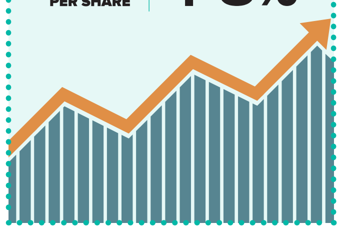
Credo Global Equity fund has 4.1% of its portfolio invested in Prudential.

PRUDENTIAL IN NUMBERS
(2018 HALF YEAR)

Operating profit
£2.4 BILLION ↑ 9%

Asia new business profit
£1.12 BILLION ↑ 11%

2018 first interim dividend
15.67p PER SHARE ↑ 8%



PRUDENTIAL SHARE PRICE VERSUS FTSE 100

Source: Lipper