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Prudential PLC

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Prudential split makes strategic sense as seismic shifts in financial sector roll on

Prudential PLC (LON:PRU) investors today welcomed the financial giant's plans to demerge its M&G Prudential business, which accompanied solid full-year results, a move that continues the seismic changes happening in the previously rather staid sector.

The FTSE 100-listed firm's move follows Standard Life's merger with Aberdeen Asset Management in 2017 which led Standard Life Aberdeen PLC (LON:SLA) last month to unveil the sale of the bulk of its insurance business to Phoenix Group PLC (LON:PHNX).

READ: Prudential to spin-off M&G Prudential and sell £12bn of UK annuity portfolio
Meanwhile, Anglo-South African financial services group Old Mutual PLC (LON:OML) - which reports its full-year results tomorrow - is in the midst of a four-way split.

Prudential M&G was itself formed after the parent company rolled its UK asset management business, M&G, with its Prudential UK and Europe life insurance unit last year.

Richard Hunter, head of markets at interactive investor, commented: "News of a demerger driven by geography is one which makes commercial and strategic sense. Prudential's exposure to Asia has for some time been a particular strength."

He added: "The separation of the UK and European unit will enable each business to hone in on specific strategic objectives.

"Meanwhile, from an investment perspective, the robust solvency surplus underpins Prudential's financial strength, whilst the healthy increase in the dividend is a statement of management confidence in the outlook, even if the projected yield of 2.8% is noticeably shy of some of its competitors."

Price:	1217
Market Cap:	£31.76 billion

1 Year Share Price Graph

Share Information

Code:		PRU
Listing:		LSE
52 week	**High**	**Low**
	1509	**682.8**
Sector:		**Financial Services**
Website:		**www.prudential.com**

Company Synopsis:
Prudential PLC is a provider of life insurance, investment and savings products. In October 2019 it spun off its UK-focused arm M&G PLC, leaving Prudential as an Asia-led group. Prudential PLC has 20 million customers and is listed on stock exchanges in London, Hong Kong, Singapore and New York. Prudential PLC is not affiliated in any manner with Prudential Financial, Inc.

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Some cause for concerns

Hunter said: "There are few causes for concern within the numbers, although the demerger could prove something of a distraction whilst being implemented. Rising interest rates in the US would not necessarily work to Prudential's advantage, and the group's complex currency position is to an extent driven by the vagaries of sterling's performance."

But, he concluded: "Nonetheless, the potential benefits arising from the demerger are intriguing and, should Prudential capitalise on the opportunities, the move could be extremely rewarding."

It certainly was for Prudential shareholders today, with the stock up 6.5% to 1,943.5p in late afternoon trading, topping the FTSE 100 leader board.

History lessons

Russ Mould, investment director at AJ Bell. commented: "This is an interesting demerger situation. Investors will end up with shares in two separately listed businesses on the London Stock Exchange; both are expected to qualify for the FTSE 100 index."

He added: "One may assume the UK operations, to be known as M&G Prudential, will be less appealing to investors as the non-UK interests have experienced faster growth. However, history suggests the demerged component of a business can still do well on the stock market."

Mould noted: "A study in 2003 by the Krannert School of Management found that subsidiaries spun out of companies outperformed their former parent by more than 20% over the first three years following the demerger; with most of the excess returns within the first 12 months of trading."

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