SEI Investments (SEIC)

Updated April 25th, 2018 by Josh Arnold

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	9.6%	**Quality Percentile:**	N/A
Fair Value Price:	$66	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	N/A
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Total Return Percentile:**	N/A
Dividend Yield:	0.8%	**5 Year Price Target**	$111	**Valuation Percentile:**	N/A

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50 years has grown into a market cap of $11B. The company should produce $1.7B in revenue this year. SEIC is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. The company has $337B in assets under management and a further $518B under administration.

Total revenue was up 11% in Q4 with broad gains across its customer base. Indeed, similar gains were seen for the full year and operating margins rose significantly as overhead expenses were leveraged down by higher revenue. Strong growth in assets under management continues to underpin results and SEIC is setup for further revenue expansion in 2018 and beyond.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.22	$0.94	$1.22	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	***$3.35***	***$5.70***
DPS	$0.16	$0.17	$0.20	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	***$0.62***	***$0.82***

EPS growth was very sluggish from 2008 to 2012 as earnings bounced around but didn't move higher. However, since 2012 SEIC has managed to double its EPS and looking forward, that stellar record of growth is set to continue. SEIC has seen higher EPS in each year since 2011 and growth has been significant in that time, averaging more than 14% annually. We are forecasting 10% EPS growth over the next five years, implying a slowdown in SEIC's EPS expansion, but certainly not as a result of deteriorating fundamentals. We see SEIC achieving these results through continued revenue expansion as more customers adopt its SEI Wealth Platform, and assets under management and advisement continue to grow. We see mid- to high single digit revenue growth as the primary driver of earnings going forward. However, SEIC also buys back stock at low single digit rates as well as seeing margin expansion from higher revenue. The key here is revenue growth as SEIC invests heavily in its future so margin growth takes a backseat to top line gains for the time being.

SEIC's dividend growth has been decent in recent years but the huge run the stock has seen has disallowed the yield to become a significant source of shareholder returns. We see moderate dividend growth going forward but keep in mind that investors own SEIC for the earnings growth potential, not for the yield, and that isn't going to change anytime soon.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.3	17.3	17.1	18.1	17.4	18.4	19.0	24.4	22.6	22.3	***20.7***	***19.5***
Avg. Yld.	0.7%	1.0%	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	***0.8%***	***0.7%***

SEIC's PE multiple has understandably moved higher in recent years as its growth has taken off. It is trading at a slight premium to fair value today but overall, looks reasonably priced. We are forecasting a minor 1.2% headwind to the valuation in the coming years, partially offsetting earnings growth gains and the dividend. However, given the favorable growth outlook, it is possible SEIC could see its fair value PE multiple move higher in the coming years. For now, we see it as essentially fairly valued here.

The yield should remain roughly where it is today as a result of a higher stock price and moderate dividend growth. Again, SEIC is not owned for the yield and we don't see it becoming a significant source of returns in the near future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	61.4%	55.9%	84.2%	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	***55.0%***	***55.5%***
Debt/A	43%	41%	24%	21%	21%	20%	19%	19%	20%	20%	***20%***	***20%***
Int. Cov.	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Payout	9%	12%	17%	24%	11%	33%	12%	23%	24%	25%	***19%***	***14%***
Std. Dev.	70.6%	45.4%	26.4%	37.5%	22.3%	18.9%	19.0%	22.0%	31.9%	14.6%	***22.0%***	***31.0%***

SEIC's quality metrics have been remarkably steady for a company that has transformed itself into a growth machine in recent years. Its margins have steadily trekked higher but appear to have reached a plateau for now; we do not see gross margin expansion as an earnings driver for the foreseeable future. SEIC has basically no debt to speak of so its balance sheet is in excellent shape and interest coverage isn't meaningful; SEIC has the financial firepower to develop its platform and chase growth without fear of overworking its balance sheet. The payout ratio is very low as EPS expansion has far outpaced dividend growth in recent years, something we think will continue in the years to come. There may come a time when the dividend is a significant source of returns but SEIC is understandably focused on growth.

SEIC's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That doesn't make SEIC immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEIC serves, it is reasonable to expect material weakness during the next recession, so that is something investors should take into account.

Final Thoughts & Recommendation

Overall, SEIC looks like a nearly fairly valued stock with lots of growth potential. We are forecasting 9.6% in total annual returns going forward, comprised of the 0.8% current yield, a 1.2% headwind from the valuation and 10% EPS growth. That would make SEIC attractive for those seeking growth at a reasonable price, but not so much for value or income investors. SEIC may become an income stock in the future but it is still very much in its growth stage, so that is a long way off. SEIC is near buy territory for investors looking for growth in the financial sector.

Total Return Breakdown by Year