



S&P Global (SPGI)

Updated April 20th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$194	5 Year CAGR Estimate: 11.3%	Quality Percentile: N/A
Fair Value Price: \$178	5 Year Growth Estimate: 12.0%	Momentum Percentile: N/A
% Fair Value: 109%	5 Year Valuation Multiple Estimate: -1.7%	Total Return Percentile: N/A
Dividend Yield: 1.0%	5 Year Price Target \$313	Valuation Percentile: N/A

Overview & Current Events

S&P Global is a global provider of financial services and business information, with a market cap of \$48 B. Last year, it generated 54% of its operating income from its ratings segment, 30% from market and commodities intelligence and the remaining 16% from S&P Dow Jones Indices.

The company has a business model that is ideal for its shareholders, with very low capital expenses and large free cash flows. It also benefits from a series of favorable secular trends. More precisely, since the Great Recession in 2009, total corporate debt has been on a steady rise. In addition, investors are becoming increasingly sophisticated and thus demand real-time data and analytics. Moreover, there is an accelerating demand for index-related investments, such as ETFs. All these secular trends have greatly benefited S&P Global and are likely to remain in place for many more years.

All these tailwinds were prominent in the Q4 earnings report of the company, which confirmed that the company is firing on all cylinders. All segments enjoyed significant growth last year, with the largest segment (ratings) growing its adjusted operating income at the fastest pace (27%). Overall, the company enjoyed 7% revenue growth and 29% EPS growth last year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	----	----	----	----	----	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.53	\$15.03
DPS	----	----	----	----	----	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$4.20

Thanks to the above favorable trends, S&P Global has grown consistently since the financial crisis. In the last four years, it has grown its revenues by 7% per year and its EPS by 20% per year on average. During this period, it has steadily expanded its operating margin, from 34% in 2013 to 47% last year. As these trends are likely to remain in place this year, management and analysts expect 24% EPS growth this year, from \$6.89 to \$8.53. This estimate includes a significant benefit from the recent tax reform.

While the company has an exceptional growth record, it is prudent to assume somewhat lower growth rates going forward, as it is hard for a company to keep growing at a steady rate as it grows bigger. Moreover, the U.S. has not experienced a recession for nine consecutive years. Therefore, as the Fed has begun to raise the interest rates aggressively, a recession has good chances of showing up within the next five years. All in all, it is reasonable to expect the company to grow its EPS by about 12% per year in the upcoming years, from \$8.53 this year to \$15.03 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	----	----	----	----	----	19.2	21.1	21.8	20.3	20.9	22.7	20.8
Avg. Yld.	----	----	----	----	----	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.3%

Thanks to its impressive growth record and the ongoing 9-year bull market, S&P Global currently has a rich valuation. Consequently, investors should not count on expansion of its P/E ratio going forward. On the other hand, its current P/E of 22.7 is not much higher than its 5-year average P/E of 20.8. If the stock reverts to its average P/E ratio in 2023, it will incur a 1.7% annualized drag due to P/E contraction in the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	----	----	----	----	----	51.8%	50.2%	43.9%	44.8%	46.2%	47.0%	48.0%
Debt/A	----	----	----	----	----	78.5%	92.8%	97.6%	92.5%	92.5%	92.5%	92.5%
Int. Cov.	----	----	----	----	----	23.0	30.8	18.8	18.6	19.2	19.0	20.0
Payout	----	----	----	----	----	33.6%	30.9%	29.1%	26.9%	23.8%	23.4%	27.9%
Std. Dev.	----	----	----	----	----	26.2%	19.0%	22.8%	23.1%	13.7%	15.0%	18.0%

The most important feature of S&P Global is its strong competitive advantage. More precisely, it operates in a highly concentrated industry, as the three well-known rating agencies control over 90% of global financial debt. Moreover, despite the low capital expenditures required in this business, there are high barriers to entry. All the companies and the countries that issue new debt need to be rated by these three rating agencies. Otherwise, their bonds will not attract a sufficient number of investors at a decent rate.

On the other hand, S&P Global is vulnerable to recessions, as companies, countries and individuals become much more conservative during such periods and thus their interest in financial services and debt issuance greatly decreases. This was evident in the Great Recession, when the EPS of S&P Global fell 21%, from \$2.94 in 2007 to \$2.33 in 2009. However, given that it was a financial crisis and most companies saw their earnings collapse, the performance of S&P Global was certainly decent. Nevertheless, investors should keep in mind that the stock will come under pressure whenever the next recession shows up, due to a decrease in its earnings and contraction of its valuation.

Final Thoughts & Recommendation

As S&P Global has a dividend yield of just 1.0%, it is probably unsuitable for retirees, particularly given its short-term downside risk in the event of a recession. On the other hand, the stock enjoys the advantage of its oligopoly and has ample room to keep growing at a fast pace in all its segments for years. Even if its EPS growth decelerates to 12%, it is likely to return an 11.3% average annual return over the next five years thanks to its EPS growth and its 1.0% dividend, which will be partly offset by a 1.7% annualized P/E contraction. Such a return is definitely attractive, particularly given the current phase of the 9-year bull market.

Total Return Breakdown by Year

