Invesco Ltd (IVZ)

Updated May 1st, 2018 by Nick McCullum

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	17.6%	**Quality Percentile:**	N/A
Fair Value Price:	$41	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	N/A
% Fair Value:	68%	**5 Year Valuation Multiple Estimate:**	7.4%	**Total Return Percentile:**	N/A
Dividend Yield:	4.2%	**5 Year Price Target**	$55	**Valuation Percentile:**	N/A

Overview & Current Events

Invesco is an investment management firm with assets under management of approximately $950 billion. The company serves retail, institutional, and wealth management around the world. Invesco was founded in 1935 and trades with a market capitalization of $12 billion.

In late April, Invesco announced (4/26/18) financial performance for the three months ended March 31, 2018. Operating revenues increased by 13.6% while operating income increased by 24.5% and diluted earnings-per-share increased by 19.2%. Much of this robust growth came from acquisitions, specifically the purchase of Guggenheim Investments' ETF business, which closed on April 6th. On an adjusted basis (which excludes acquisitions), net revenues increased by 10.5% adjusted operating income increased by 9.5%, and adjusted diluted earnings-per-share increased by 9.8%. The company's strong performance was driven by growth in assets under management, which ballooned by 11.9% on a period-end basis and 14.6% on a period-average basis.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.21	$0.76	$1.01	$1.57	$1.49	$2.10	$2.51	$2.26	$2.06	$2.75	***$2.90***	***$3.90***
DPS	$0.52	$0.41	$0.43	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	***$1.25***	***$2.00***

Invesco has compounded its adjusted earnings-per-share at a rate of 9.6% per year since 2008. We believe that fee compression in the asset management industry will make this level of growth difficult to sustain moving forward. Instead, we expect Invesco to deliver earnings growth of around 6% per year, driven by a combination of rising assets under management, cost controls, and share repurchases. The company is likely to print earnings-per-share of around $2.90 in fiscal 2018. Applying a 6% growth rate to this estimate for next year's earnings allows us to compute a 2023 earnings-per-share estimate of $3.90. Dividend payments should rise faster than earnings as the company continues to distribute more of its net income to its stockholders.

We also note that prior to 2009, Invesco paid a variable dividend. The company switched to a more normal policy of regularly increasing its dividend in 2009 and has been a steady dividend grower ever since.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.4	23.4	20.5	14.0	16.0	15.0	14.9	16.2	14.4	12.2	***9.8***	***14.0***
Avg. Yld.	2.3%	2.3%	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	***4.2%***	***3.3%***

Invesco has traded at an average price-to-earnings ratio of 16.5 over the last decade. Using our 2018 earnings-per-share estimate of $2.90, Invesco is trading at a price-to-earnings ratio of just 9.8 today. The company is significantly undervalued. With that said, we believe that an earnings multiple of 16.5 is likely a bit too high for an asset management business like Invesco, especially after considering comparable valuations in the industry. Instead, the company's fair value is likely somewhere around 14 times earnings. If Invesco's price-to-earnings ratio can revert to 14 over a period of 5 years, this will add 7.4% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	32.4%	30.1%	54.2%	52.8%	48.3%	53.4%	54.6%	64.7%	69.3%	71.0%	***70.0%***	***50.0%***
Int. Cov.	18.5	7.7	3.3	3.6	4.0	25.1	24.5	21.0	16.0	18.7	***16.0***	***16.0***
Payout	43.0%	53.9%	42.6%	30.6%	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	***43.1%***	***51.3%***
Std. Dev.	58.2%	50.0%	34.1%	36.1%	25.3%	20.5%	18.2%	19.1%	32.4%	19.9%	***22.0%***	***22.0%***

Invesco's balance sheet has taken on more and more debt over time and is currently composed of more than 70% liabilities. With that said, this is likely caused in part by the acquisition of Guggenheim Investments' ETF business, a $1.2 billion purchase that includes 79 ETFs with roughly $37 billion in assets under management. We expect Invesco will deleverage itself over the next several years as interest rates rise. We also note that Invesco (like other asset managers) has an above-average stock price standard deviation. This makes sense when you consider the company's business model. Volatility in the financial markets has the two-pronged effect of reducing the company's assets under management (and fee revenue) while simultaneously causing investors to mistakenly sell their securities and withdraw from the markets.

Qualitatively, Invesco's brand and strong financial position provide it with a durable advantage in the highly competitive asset management industry. The company has credit ratings of A2 and A from Moody's and Standard & Poor's, respectively, which are critical for a financial services firm. Strong credit ratings allow an asset management firm to uphold a reputation of financial integrity, which helps to retain and grow its client base.

Final Thoughts & Recommendation

Invesco's expected total returns are far higher than the average within our investment universe, primarily due to its absurdly cheap valuation. If the financial markets continue to trend upward, then Invesco would make an excellent investment today. With that said, a sharp bear market would likely cause Invesco to drop further. Because of the company's cheap valuation and strong return profile, we're issuing a buy recommendation on Invesco with the caveat that investors should be willing to stomach above-average stock price volatility.

Total Return Breakdown by Year