



S&P Global (SPGI)

Updated July 26th, 2018 by Ben Reynolds

Key Metrics

Current Price: \$215	5 Year CAGR Estimate: 9.1%	Volatility Percentile: N/A
Fair Value Price: \$177	5 Year Growth Estimate: 12.0%	Momentum Percentile: N/A
% Fair Value: 121%	5 Year Valuation Multiple Estimate: -3.8%	Valuation Percentile: N/A
Dividend Yield: 0.9%	5 Year Price Target \$313	Total Return Percentile: N/A

Overview & Current Events

S&P Global is a global provider of financial services and business information, with a market cap of \$54 billion. 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.

Several notable developments have occurred since our last update on April 20th. First, the company released positive 1st quarter results on April 26th. Revenue and adjusted earnings-per-share (EPS) were up 8% and 24%, respectively, versus the same quarter a year ago. S&P Global also added to its technology capabilities in the quarter with the small (on a relative basis) acquisitions of [Kensho](#) and [Panjiva](#). And, the company reaffirmed its fiscal 2018 adjusted EPS guidance. On June 20th, S&P Global announced it will acquire [RateWatch](#) from TheStreet (TST) for \$33.5 million in cash, to further strengthen its data services. Finally, on July 26th, S&P Global released its second quarter results. Revenue and adjusted earnings-per-share (EPS) were up 7% and 26%, respectively, versus the same quarter a year ago. It was a positive quarter overall, and S&P Global maintained its guidance for fiscal 2018.

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

S&P Global's business 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, which means more ratings. 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.

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	25.2	20.8
Avg. Yld.	----	----	----	----	----	1.8%	1.5%	1.3%	1.3%	1.1%	0.9%	1.3%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Thanks to its impressive growth record and the ongoing bull market, S&P Global currently has a rich valuation. The company's current price-to-earnings ratio of 25.2 is ~20% higher than its 5-year average price-to-earnings ratio of 20.8. If the stock reverts to its average valuation by 2023, it will introduce a 3.8% annualized drag over 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. It operates in the highly concentrated financial ratings industry where the 3 well-known rating agencies control over 90% of global financial debt ratings.

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

S&P Global enjoys the advantage of its oligopoly in the ratings industry 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%, we expect ~9% average annual returns over the next five years after accounting for dividends and the valuation headwind. S&P Global is somewhat overvalued at current prices so we do not recommend buying today. It is a long-term hold at current prices.

Total Return Breakdown by Year

