SEI Investments (SEIC)

Updated August 2nd, 2018 by Josh Arnold

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	11.7%	**Volatility Percentile:**	71.4%
Fair Value Price:	$62	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	41.8%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.7%	**Valuation Percentile:**	69.4%
Dividend Yield:	1.0%	**5 Year Price Target**	$98	**Total Return Percentile:**	80.5%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50 years, has grown into a market cap of $9.3 billion. The company should produce $1.6 billion in revenue this year. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors.

SEI reported Q2 earnings on 7/19/18 and total revenue rose 9%. Strength was broad-based as SEI saw higher revenue from asset management, administration and distribution fees. The company also continues to acquire small firms to drive further revenue growth. Operating margins remain very high, but were roughly flat year-over-year. A lower tax rate and $105 million in share repurchases helped drive earnings-per-share 32% higher against last year's Q2.

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	***$3.15***	***$5.05***
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***

Earnings growth was very sluggish from 2008 to 2012 as earnings bounced around but did not move higher. However, since 2012 SEI has managed to double its earnings and looking forward, that stellar record of growth is set to continue. SEI has seen higher earnings-per-share in each year since 2011 and growth has been significant in that time, averaging more than 14% annually. We are forecasting 10% earnings-per-share growth over the next five years, implying a slowdown, but certainly not as a result of deteriorating fundamentals. We see SEI 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, SEI also buys back stock at low single digit rates as well as seeing margin expansion from higher revenue. The key is revenue growth as SEI invests heavily in its future.

SEI's dividend growth has been decent in recent years but the huge run the stock has seen means the yield will not become a significant source of shareholder returns. We see moderate dividend growth going forward but keep in mind that investors own SEI 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	***18.8***	***19.5***
Avg. Yld.	0.7%	1.0%	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	***1.0%***	***0.7%***

SEI's price-to-earnings multiple has understandably moved higher in recent years as its growth has taken off. However, a recent selloff has the valuation back under fair value and thus, we are forecasting a 0.7% tailwind to the valuation in the coming years.

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

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

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%	***20%***	***16%***
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%***

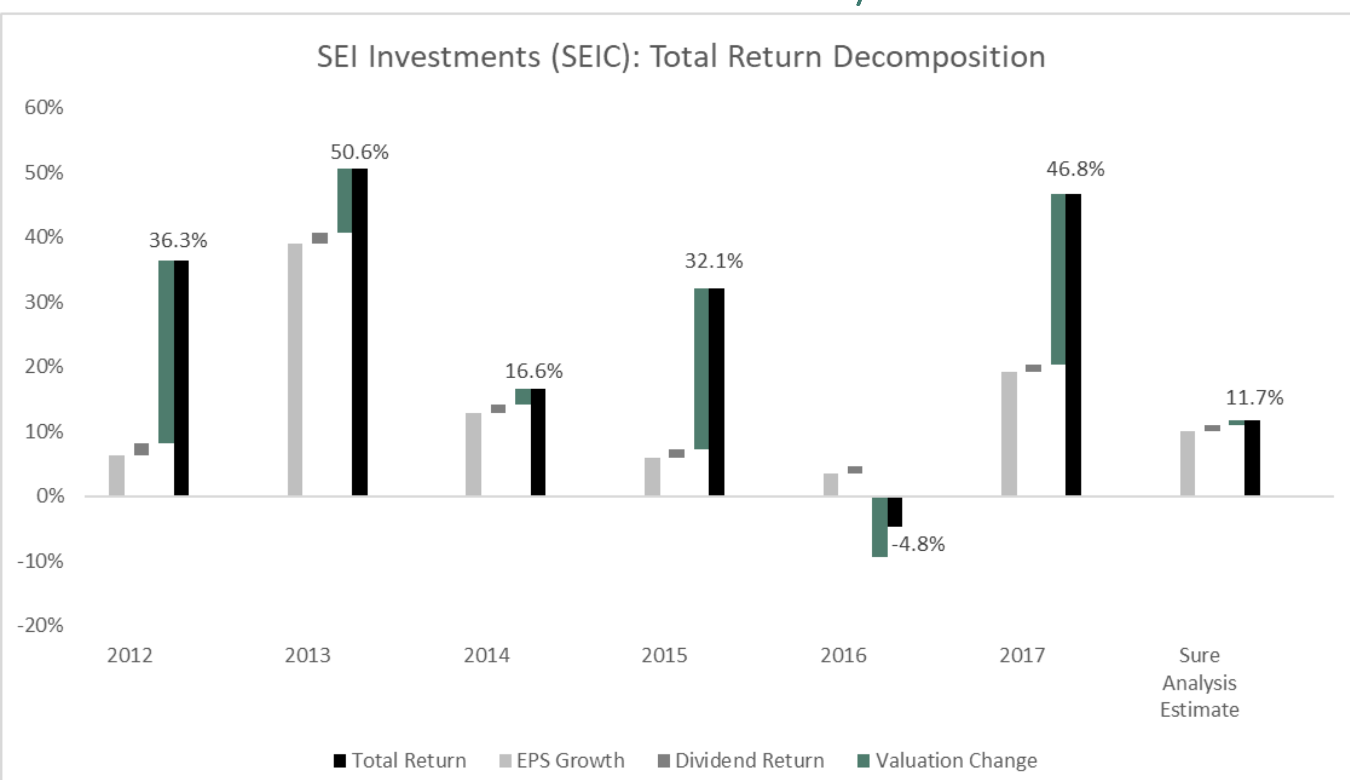
SEI's quality metrics have been remarkably steady for a company that has transformed itself into a growth machine in recent years. Its margins have steadily trekked higher but appear to have reached a plateau for now; we do not see gross margin expansion as an earnings driver for the foreseeable future. SEI has basically no debt to speak of, so its balance sheet is in excellent shape and interest coverage is not a concern. SEI 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 earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns but SEI is understandably focused on growth today.

SEI's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That does not make it immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEI 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, SEI looks like a slightly undervalued stock with lots of growth potential. We are forecasting 11.7% in total annual returns going forward, comprised of the 1.0% current yield, a 0.7% tailwind from the valuation and 10% earnings-per-share growth. That would make SEI attractive for those seeking growth at a reasonable price, but not so much for value or income investors. SEI 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. We rate SEI a buy after the recent selloff as our growth outlook is unchanged.

Total Return Breakdown by Year



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