



S&P Global (SPGI)

Updated October 27th, 2018 by Nick McCullum

Key Metrics

Current Price:	\$171	5 Year CAGR Estimate:	12.0%	Volatility Percentile:	30.5%
Fair Value Price:	\$178	5 Year Growth Estimate:	10.0%	Momentum Percentile:	61.4%
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Growth Percentile:	88.6%
Dividend Yield:	1.2%	5 Year Price Target	\$286	Valuation Percentile:	52.1%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	65.6%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$43 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.

S&P Global's share price has declined from \$215 since our last update ~3 months ago to \$171 today, a 20% decline. The decline is due in part to general market declines. S&P Global's stock price tends to fall considerably during market downturns. The company also released 3rd quarter results on October 25th. Adjusted earnings-per-share grew 23%. Revenue grew just 2%, while operating margins expanded ~8% versus the same quarter a year ago. Share repurchases also added ~2% to returns. This means that gains due to U.S. tax reform accounted for ~11 percentage points of the company's growth; *nearly half of growth versus the same quarter a year ago*. Additionally, S&P Global announced a slight increase to its expected 2018 adjusted earnings-per-share. The company now expects adjusted earnings-per-share of \$8.55 in fiscal 2018, up from \$8.53. S&P Global's *business* continues to perform well. It's stock price, however, has suffered since our last update.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	N/A	N/A	N/A	N/A	N/A	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.55	\$13.77
DPS	N/A	N/A	N/A	N/A	N/A	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$3.22
Shares	N/A	N/A	N/A	N/A	N/A	271	272	265	258	264	250	225

S&P Global's business has benefited from a series of favorable secular trends. Since the Great Recession in 2009, total corporate debt has been on a steady rise, which means more ratings. With interest rates rising, this trend appears to be reversing. The company's Ratings segment revenue declined 5% last quarter due to declining corporate debt issuances. Positively, investors are becoming increasingly sophisticated and thus demand more real-time data and analytics. Moreover, there is an accelerating demand for index-related investments, such as ETFs.

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 50% now. Management expects 24% earnings-per-share growth this year, from \$6.89 to \$8.55. 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 due to higher interest rates resulting in less corporate debt issuances, and therefore less ratings revenue for S&P Global. We are reducing our growth estimate from 12% annually to 10% annually.

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	20.0	20.8
Avg. Yld.	----	----	----	----	----	1.8%	1.5%	1.3%	1.3%	1.1%	1.2%	1.3%

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S&P Global's 5-year average price-to-earnings ratio is 20.8. The stocks is currently trading for a price-to-earnings ratio of 20.0, after its ~20% declines over the last quarter. S&P Global appears to be trading around fair value at current prices.

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%

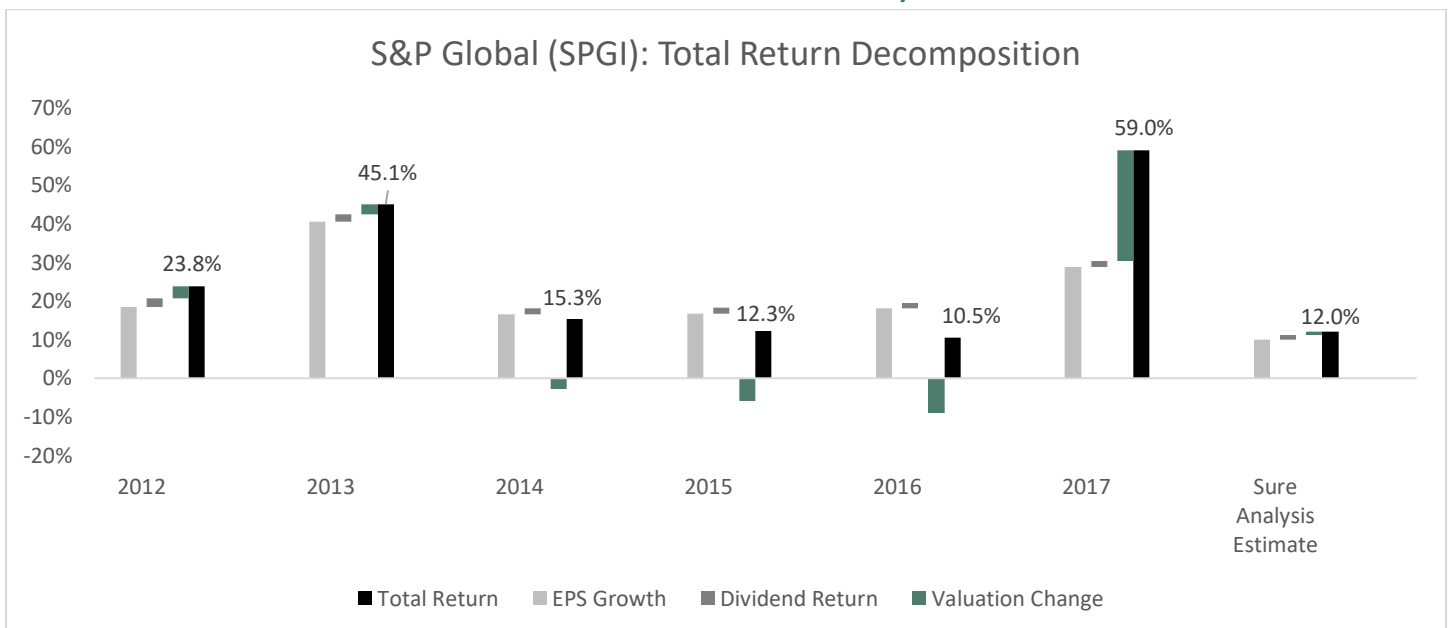
The most important feature of S&P Global is its strong competitive advantage. It operates in the highly concentrated financial ratings industry where the 3 well-known rating agencies control over 90% of global financial debt ratings.

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 solid overall. 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 10%, we expect 12% average annual returns over the next five years after accounting for dividends and a small valuation tailwind. S&P Global is a Dividend Aristocrat and a buy today for investors looking for financial sector exposure. We caution potential investors that the stock will likely fall significantly during a recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	N/A	4702	5051	5313	5661	6063
Gross Profit	N/A	N/A	N/A	N/A	N/A	3138	3400	3595	3888	4350
Gross Margin	N/A	N/A	N/A	N/A	N/A	66.7%	67.3%	67.7%	68.7%	71.7%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	1631	3144	1532	1439	1560
D&A Exp.	N/A	N/A	N/A	N/A	N/A	137	134	157	181	180
Operating Profit	N/A	N/A	N/A	N/A	N/A	1358	122	1906	2268	2610
Operating Margin	N/A	N/A	N/A	N/A	N/A	28.9%	2.4%	35.9%	40.1%	43.0%
Net Profit	N/A	N/A	N/A	N/A	N/A	1376	-115	1156	2106	1496
Net Margin	N/A	N/A	N/A	N/A	N/A	29.3%	-2.3%	21.8%	37.2%	24.7%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	665	1117	217	1445	1893
Income Tax	N/A	N/A	N/A	N/A	N/A	425	245	547	960	823

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	N/A	6061	6773	8183	8669	9425
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	1542	2497	1481	2392	2779
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	949	932	991	1122	1319
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	2442	2391	4405	4455	4377
Total Liabilities	N/A	N/A	N/A	N/A	N/A	4717	6234	7940	7968	8657
Accounts Payable	N/A	N/A	N/A	N/A	N/A	210	191	206	183	195
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	799	795	3611	3564	3569
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	1301	488	194	650	711
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.61	1.63	18.61	5.48	5.02

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	N/A	21.0%	-1.8%	15.5%	25.0%	16.5%
Return on Equity	N/A	N/A	N/A	N/A	N/A	133%	-12.9%	339%	499%	220%
ROIC	N/A	N/A	N/A	N/A	N/A	64.9%	-6.6%	44.6%	51.9%	34.8%
Shares Out.	N/A	N/A	N/A	N/A	N/A	271	272	265	258	264
Revenue/Share	N/A	N/A	N/A	N/A	N/A	16.80	18.60	19.35	21.35	23.42
FCF/Share	N/A	N/A	N/A	N/A	N/A	2.38	4.11	0.79	5.45	7.31

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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