



S&P Global (SPGI)

Updated February 9th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$194	5 Year CAGR Estimate:	9.9%	Volatility Percentile:	31.8%
Fair Value Price:	\$181	5 Year Growth Estimate:	10.0%	Momentum Percentile:	66.8%
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Growth Percentile:	90.6%
Dividend Yield:	1.2%	5 Year Price Target	\$292	Valuation Percentile:	33.5%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	51.1%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$49 billion and annual revenue in excess of \$6 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 reported Q4 earnings on 2/7/19 and results were once again strong. Total revenue fell 3% on a reported basis and 4% on an organic basis. The decline was due to lower Ratings revenue as global debt issuance fell. This decline in revenue was partially offset by top line gains in the company's three other reporting segments, but Q4 was an uncharacteristically weak quarter for revenue.

The Ratings segment saw its revenue decline 16% as it produced lower transaction and non-transaction revenue during the quarter. This helped drive operating income lower as well, as it fell 4% on a dollar basis, but actually improved fractionally as a percentage of revenue. Still, the Ratings business was a sizable drag on consolidated results in Q4.

The Market Intelligence business saw an 8% revenue gain in Q4 thanks to strong organic growth and a couple of small acquisitions (Panjiva and RateWatch). Operating profit soared 27% on a dollar basis and 570bps as a percentage of revenue as this segment produced an outstanding Q4.

The Platts business saw its Q4 revenue rise 7% thanks to higher subscriptions. Operating profits rose 18% on a dollar basis and 470bps as a percentage of revenue against the year-ago period.

Finally, the company's S&P Dow Jones subsidiary posted a 13% increase in revenue in Q4 thanks to higher derivatives trading volume. Operating profits moved 18% higher on a dollar basis and 220bps as a percentage of revenue, complementing the strength of the Market Intelligence and Platts businesses.

In total, S&P Global saw its earnings-per-share rise 20% in Q4 despite the relatively weak consolidated revenue performance, capping another year of very strong growth. The company also returned \$2.2 billion to shareholders in 2018 via dividends and buybacks, and management offered up earnings-per-share guidance of \$8.95 to \$9.15 for 2019. As a result, our initial estimate is \$9.05 for 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	----	----	----	----	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.05	\$14.58
DPS	----	----	----	----	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$4.50
Shares	----	----	----	----	271	272	265	258	254	248	244	230

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 has suffered in recent quarters due to this, but management is confident that these headwinds are temporary. In our view, S&P Global has three other very strong segments that can help offset any weakness that persists in the Ratings business, so we are not overly concerned just yet.

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.

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S&P Global has grown consistently since the financial crisis, boosting revenue and operating margins on a regular basis, as was the case for the most part again in Q4. We think S&P Global will see a small tailwind from its buyback, as well as mid-single digit revenue gains and some measure of margin expansion to get to our target of 10% earnings-per-share growth annually in the coming years. That is lower than the company's historical rate of growth, but given the marked slowdown in debt issuances globally, it is prudent to temper one's expectations. We still think S&P Global has a very bright outlook, but it is slightly less so as the Ratings business struggles a bit.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	----	----	----	----	19.2	21.1	21.8	20.3	20.9	22.6	21.4	20.0
Avg. Yld.	----	----	----	----	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.2%	1.5%

S&P Global's 5-year average price-to-earnings ratio is 21, but we're assessing fair value at 20 times earnings thanks to the slowdown in the Ratings segment. The stock is currently trading for a price-to-earnings ratio of 21.4 after a rally off of the December bottom and thus, is trading slightly in excess of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	----	----	----	----	34%	31%	29%	27%	24%	24%	25%	31%

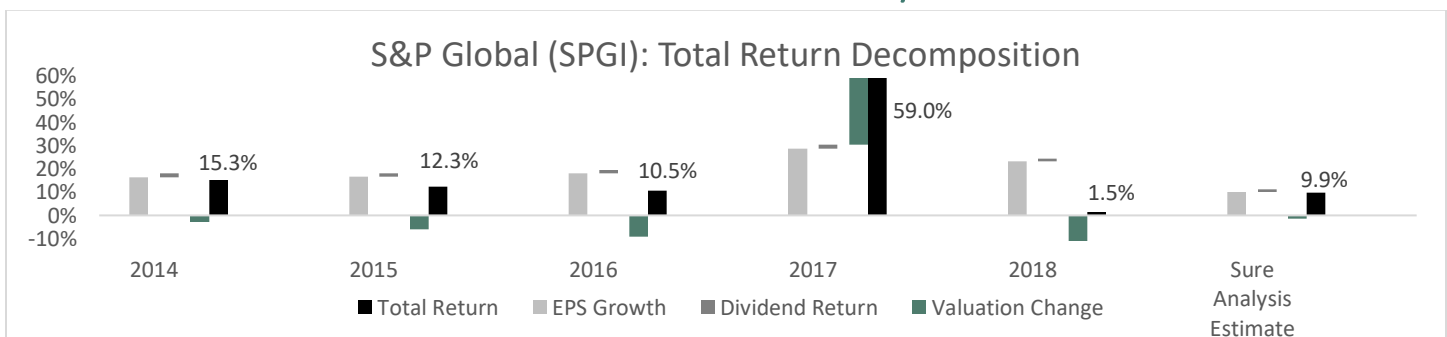
The most important feature of S&P Global is its strong competitive advantage. It operates in the highly concentrated financial ratings industry where the 3 well-known rating agencies control over 90% of global financial debt ratings.

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 earnings growth decelerates to 10%, we expect 9.9% average annual returns over the next five years after accounting for dividends and a small valuation headwind. 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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