



Goldman Sachs (GS)

Updated April 16th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$200	5 Year CAGR Estimate:	14.0%	Volatility Percentile:	75.0%
Fair Value Price:	\$247	5 Year Growth Estimate:	8.0%	Momentum Percentile:	9.8%
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Growth Percentile:	76.0%
Dividend Yield:	1.7%	5 Year Price Target	\$363	Valuation Percentile:	87.0%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	86.5%

Overview & Current Events

Goldman Sachs was founded in 1869 and in the nearly 150 years since, it has grown into one of the world's leading financial companies. It competes in a wide variety of service activities to a diverse and broad base of global customers. The company trades with a \$73 billion market capitalization after a recent bout of weakness, and should produce about \$36 billion in revenue in 2019.

Goldman Sachs reported Q1 earnings on 4/15/19 and while results beat analyst consensus estimates, earnings fell markedly from last year's Q1. Total revenue fell 13% year-over-year to \$8.81 billion as weakness came from nearly every operating segment. Investment Banking saw its revenue come in essentially flat to last year's Q1, but 11% lower than Q4. Institutional Client Services revenue fell 18% against last year's Q1, and a staggering 49% against Q4. Investing & Lending revenue declined 14% year-over-year, but just 4% sequentially. Finally, Investment Management revenue was off 12% year-over-year and 9% against Q4. In total, while some revenue weakness was certainly expected given strong performances last year, Goldman Sachs' Q1 revenue picture was quite unfavorable.

Higher losses in the bank's consumer portfolio saw provisions for credit losses increase from just \$44 million in last year's Q1 to \$224 million this year. Provisions were essentially flat with Q4's number, however. The bank's efficiency ratio crept higher in Q1, rising year-over-year from 65.6% to 66.6%, which crimped margins.

Earnings-per-share fell year-over-year from \$6.95 to \$5.71 due to the above factors. Tangible book value per share is now \$198.25, essentially on par with the current share price. We've lowered our estimate for earnings-per-share for 2019 by a dollar to \$23.50 due to revenue and margin weakness in Q1.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$22.13	\$14.90	\$4.51	\$14.13	\$15.46	\$17.07	\$18.32	\$16.36	\$19.76	\$25.27	\$23.50	\$34.53
DPS	\$1.05	\$1.40	\$1.40	\$1.77	\$2.05	\$2.25	\$2.55	\$2.60	\$2.90	\$3.15	\$3.40	\$5.40
Shares	515	508	485	465	446	430	419	398	390	384	380	365

Earnings-per-share has been quite volatile in the past decade, although some of that volatility was due to the extraordinary events of the Great Recession. Indeed, earnings-per-share only bested the level of 2009 in 2018, a testament to how tough things have been on Wall Street compared to the pre-recession days. Still, we think Goldman's days of struggling to move earnings in the right direction have passed and forecast 8% earnings-per-share growth annually moving forward.

We see Goldman benefiting from an increasingly lenient regulatory environment – perhaps once again permitting activities that have been capped or banned in the recent past – in addition to continued strength in its core market-sensitive and investment banking businesses. In addition to those boosts, Goldman's revenue generation remains strong, Q1 results notwithstanding. Although its segments ebb and flow with market activity, Goldman nearly always finds a way to move the needle in the right direction. Weakness in debt markets will not persist forever and the company stands to gain from its world-class equities business, despite current market conditions. The company also

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buys back a moderate amount of stock, but we see expense control and revenue generation as key drivers of growth moving forward. Q1 results did not support Goldman Sachs' path to growth, but we see these headwinds as temporary. The dividend has never been a priority for management and we do not believe that is going to change. We do see growth in the payout but only to \$5.40 per share in five years, a small fraction of the company's projected earnings.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	6.3	10.4	29.1	7.9	10.2	10.2	10.5	10.3	6.3	9.2	8.5	10.5
Avg. Yld.	0.7%	0.9%	1.1%	1.6%	1.3%	1.3%	1.3%	1.5%	0.7%	1.4%	1.7%	1.5%

Goldman's average price-to-earnings multiple in normal times is about 10.5, which we see as fair value. Shares are trading for just 8.5 times this year's earnings, implying they are meaningfully undervalued today. Indeed, we expect a rising valuation to add 4.3% annually to total returns as Goldman trades more in line with historical norms. We also see the rising dividend payment roughly keeping pace with stock growth, with the yield remaining in the mid-1% range. Goldman Sachs just raised its dividend from \$3.20 annually to \$3.40.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	16%	15%	62%	15%	16%	17%	19%	23%	20%	12%	14%	16%

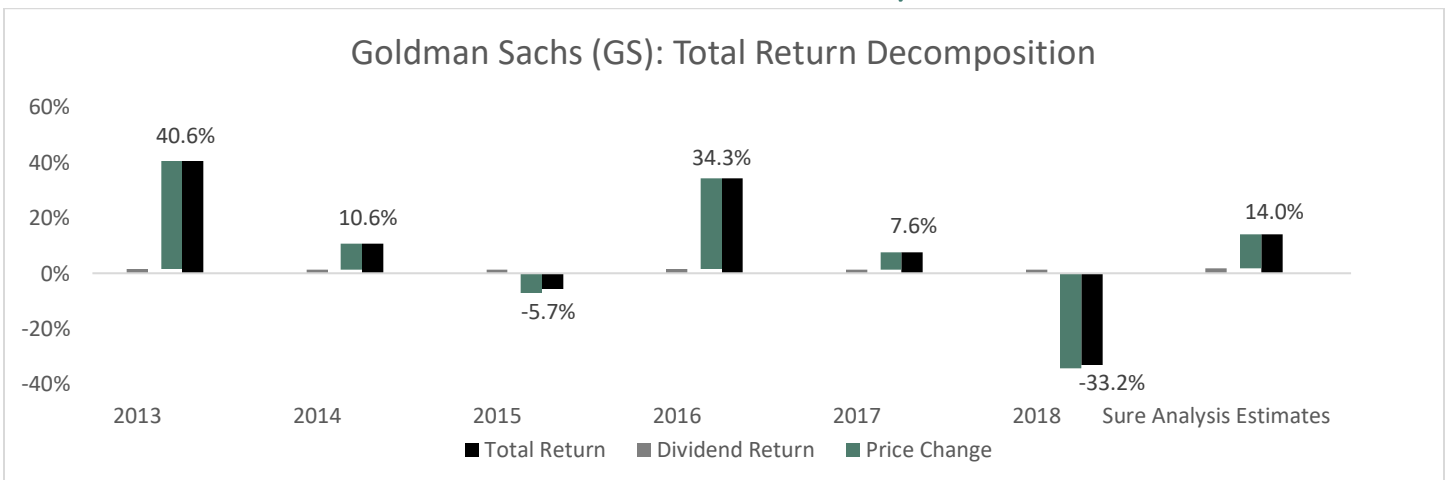
Goldman's payout ratio is still just a small fraction of earnings, meaning the dividend is ultra-safe. We don't see a huge amount of payout growth coming because the dividend has never been a priority.

Goldman's competitive advantage is in its world-class leadership and reputation. The bank enjoys very lucrative relationships in the debt and equity markets, in addition to its best-in-class trading desks. Recessions are not kind to Goldman, as expected, so look for it to suffer during the next downturn.

Final Thoughts & Recommendation

We see Goldman Sachs as an undervalued, conservative pick in the financial space. We forecast total returns of 14.0% annually moving forward. Robust forecasted earnings growth and a low valuation make the stock more attractive than it has been in recent times. Given the current price and Goldman's growth prospects, we rate it a buy despite a relatively weak Q1 report.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	45173	36880	26348	31955	31865	32027	31244	28053	29533	33416
SG&A Exp.	17244	17062	14220	14833	14106	14019	14041	12913	13338	14091
D&A Exp.	1943	1904	1869	1738	1322	1337	991	998	1152	N/A
Net Profit	13385	8354	4442	7475	8040	8477	6083	7398	4286	10459
Net Margin	29.6%	22.7%	16.9%	23.4%	25.2%	26.5%	19.5%	26.4%	14.5%	31.3%
Free Cash Flow	47319	-6584	21317	11918	3837	-8610	7648	4024	-20.9B	N/A
Income Tax	6444	4538	1727	3732	3697	3880	2695	2906	6846	2022

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	848.94	911.33	923.23	938.56	911.51	855.84	861.40	860.17	916.78	933.00
Cash & Eq. (\$B)	38.29	39.79	120.27	122.34	110.80	109.32	93.44	121.71	110.05	130.00
Acc. Rec. (\$B)	71.65	81.89	60.26	72.87	74.04	63.81	46.43	47.78	60.11	336.00
Goodwill & Int.	4920	5522	5468	5099	4376	4160	4148	4095	4038	
Total Liab. (\$B)	778.23	833.98	852.85	862.84	833.04	773.05	774.67	773.27	834.53	843.00
Acc. Payable (\$B)	185.63	190.50	198.29	194.49	204.77	213.57	210.36	188.46	178.17	180.00
LT Debt (\$B)	222.60	260.62	261.04	244.98	230.95	235.49	243.46	250.46	289.42	265.00
Total Equity	63757	70399	67279	69516	71267	73597	75528	75690	70390	90000
D/E Ratio	3.15	3.37	3.71	3.24	2.94	2.84	2.81	2.88	3.52	2.94

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.5%	0.9%	0.5%	0.8%	0.9%	1.0%	0.7%	0.9%	0.5%	1.1%
Return on Equity	24.0%	12.5%	6.5%	10.9%	11.4%	11.7%	8.2%	9.8%	5.9%	13.0%
ROIC	4.6%	2.6%	1.3%	2.3%	2.6%	2.7%	1.9%	2.2%	1.2%	2.9%
Shares Out.	515	508	485	465	446	430	419	398	390	384
Revenue/Share	82.00	63.01	47.31	61.92	63.78	67.68	68.13	64.47	72.19	85.64
FCF/Share	85.89	-11.25	38.28	23.09	7.68	-18.20	16.68	9.25	-51.15	N/A

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

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