S&P Global (SPGI)

Updated May 11th, 2019 by Josh Arnold

Key Metrics

Current Price:	$214	**5 Year CAGR Estimate:**	7.7%	**Volatility Percentile:**	32.7%
Fair Value Price:	$181	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	52.3%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.4%	**Growth Percentile:**	91.4%
Dividend Yield:	1.1%	**5 Year Price Target**	$292	**Valuation Percentile:**	27.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	41.7%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of $53 billion and revenue in the neighborhood of $6.5 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 revenue is split roughly 55/45 between US and International, respectively.

S&P Global reported Q1 earnings on 5/2/19 and results were uncharacteristically weak. Total revenue was essentially flat year-over-year as a 1% organic revenue gain was offset by an unfavorable impact from foreign exchange. Market Intelligence revenue increased 10% year-over-year in Q1, but Ratings revenue, driven by lower bank loan ratings activity, fell 7% to offset the gain in Market Intelligence revenue.

In addition to lower revenue, the company's operating profit margin fell 40bps to 44.9% of revenue. This was primarily attributable to the company's ongoing investments in artificial intelligence and analytics through the acquisition of Kensho that occurred last April. On an adjusted basis, excluding these investments, operating profit margins rose 40bps to 47.3% of revenue thanks to strong gains from the Market Intelligence segment.

The company returned $785 million to shareholders in Q1 via $141 million in dividends, $144 million in open market share repurchases, and the execution of a $500 million accelerated repurchase plan in February.

Management reiterated adjusted earnings-per-share guidance of $8.95 to $9.15, so our estimate of $9.05 is unchanged following a somewhat messy Q1 report.

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 are needed. 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.

Investors are also 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, boosting revenue and operating margins on a regular basis, Q1 results notwithstanding. 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.

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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	***23.7***	***20.0***
Avg. Yld.	---	---	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	***1.1%***	***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 23.7 after a strong rally off of the December bottom and thus, is trading meaningfully in excess of our estimate of fair value. We see the reversion to a more normalized multiple as decrementing total annual returns by 3.4%.

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%***

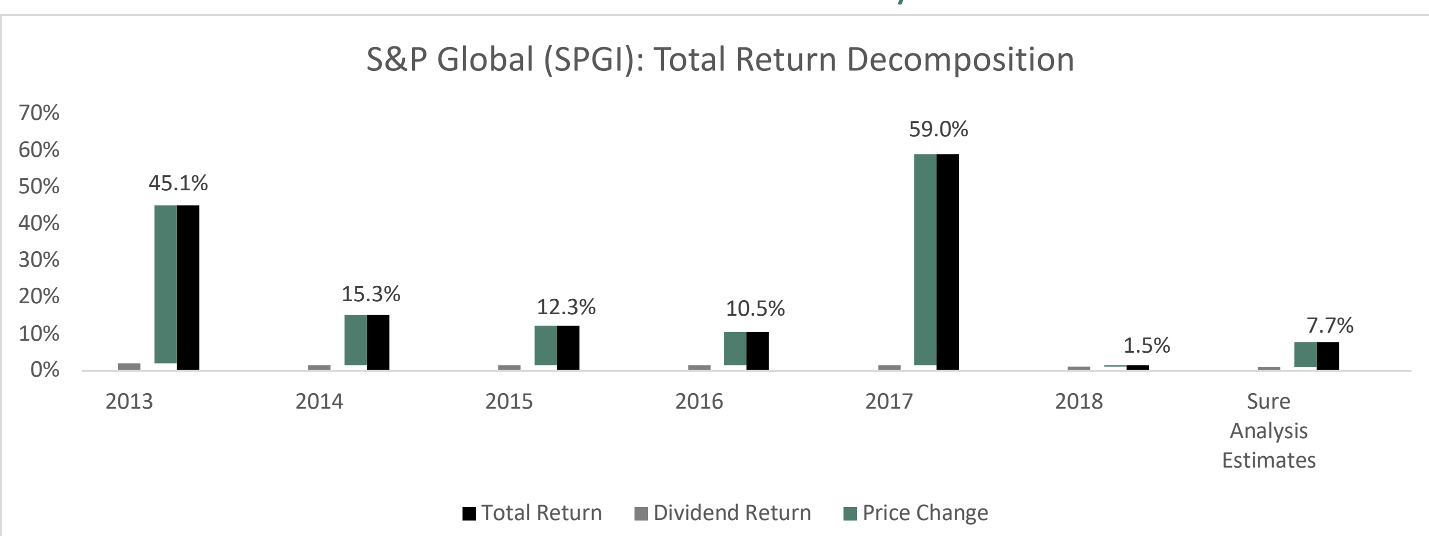
The most important feature of S&P Global is its strong competitive advantage. It operates in the highly concentrated financial ratings industry where the three well-known rating agencies control over 90% of global financial debt ratings.

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 S&P Global's earnings-per-share 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 7.7% average annual returns over the next five years after accounting for dividends and a modest 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5952	3639	3954	4270	4702	5051	5313	5661	6063	6258
Gross Profit	3566	2433	2567	2837	3138	3400	3595	3888	4368	4557
Gross Margin	59.9%	66.9%	64.9%	66.4%	66.7%	67.3%	67.7%	68.7%	72.0%	72.8%
SG&A Exp.	2141	1318	1377	1578	1631	3144	1532	1467	1605	1561
D&A Exp.	461	108	126	141	137	134	157	181	180	206
Operating Profit	1256	1026	1077	1170	1358	122	1906	2240	2583	2790
Operating Margin	21.1%	28.2%	27.2%	27.4%	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%
Net Profit	731	828	911	437	1376	-115	1156	2106	1496	1958
Net Margin	12.3%	22.8%	23.0%	10.2%	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%
Free Cash Flow	1061	618	832	634	665	1117	217	1445	1893	1951
Income Tax	429	344	374	388	425	245	547	960	823	560

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	6475	7047	6620	7052	6061	6773	8183	8669	9425	9458
Cash & Equivalents	1210	1526	835	760	1542	2497	1481	2392	2777	1917
Accounts Receivable	970	991	702	954	949	932	991	1122	1319	1449
Goodwill & Int. Ass.	2229	2551	1531	2519	2442	2391	4405	4455	4377	5059
Total Liabilities	4546	4755	5036	6212	4717	6234	7940	7968	8659	8774
Accounts Payable	302	396	223	249	210	191	206	183	195	211
Long-Term Debt	1198	1198	1198	1256	799	795	3611	3564	3569	3662
Shareholder’s Equity	1847	2210	1508	767	1301	488	194	650	709	628
D/E Ratio	0.65	0.54	0.79	1.64	0.61	1.63	18.61	5.48	5.03	5.83

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	11.6%	12.2%	13.3%	6.4%	21.0%	-1.8%	15.5%	25.0%	16.5%	20.7%
Return on Equity	46.7%	40.8%	49.0%	38.4%	133%	-12.9%	339%	499%	220%	293%
ROIC	25.7%	25.0%	29.1%	17.9%	64.9%	-6.6%	44.6%	51.9%	34.8%	45.1%
Shares Out.	---	---	---	---	271	272	265	258	254	248
Revenue/Share	19.00	11.66	13.02	15.00	16.80	18.60	19.35	21.35	23.42	24.72
FCF/Share	3.39	1.98	2.74	2.23	2.38	4.11	0.79	5.45	7.31	7.71

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