



Goldman Sachs (GS)

Updated July 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$216	5 Year CAGR Estimate:	13.1%	Volatility Percentile:	73.1%
Fair Value Price:	\$247	5 Year Growth Estimate:	8.0%	Momentum Percentile:	31.4%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Growth Percentile:	75.7%
Dividend Yield:	2.3%	5 Year Price Target	\$363	Valuation Percentile:	76.9%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	75.1%

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 \$79 billion market capitalization after a recent bout of weakness, and should produce about \$35 billion in revenue in 2019.

Goldman reported Q2 earnings on 7/16/19 and results were better than expected. Net interest income came to \$1.07 billion, up nicely from the \$1.0 billion posted in the year-ago period. Revenue in the investment banking business fell 9% year-over-year to \$1.86 billion. Institutional client services, Goldman's largest business, saw its revenue fall 3% year-over-year to \$3.48 billion. Investing and lending revenue was up 16% against last year's Q2 and was the only segment that produced higher revenue in Q2. Finally, investment management revenue declined 14% to \$1.59 billion.

Provisions for credit losses were \$214 million, which was 9% lower than last year's Q2. This helped Goldman produced stronger margins as provisions reduce earnings.

Goldman's efficiency ratio deteriorated by 100bps to 65.6% as the firm continues to invest in its technology infrastructure and in growth initiatives.

Goldman's capital position remains outstanding as its common equity tier 1 ratio, or CET1, is 13.8%. Tangible book value is \$203.05, which is only slightly below the current share price.

The firm also announced its 2019 capital plan, which includes up to \$7 billion in common share repurchases and an enormous 47% increase in the quarterly dividend to \$1.25.

Earnings-per-share came to \$5.81 in Q2, down from \$5.98 in the year-ago period. This is consistent with our estimate of \$23.50 for this year, which is unchanged, as we continue to expect lower earnings in 2019 against 2018.

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	\$5.00	\$7.25
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, Q2 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. The company stands to gain from its world-class equities business,
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despite current market conditions. Goldman can repurchase nearly 10% of its float in the next twelve months with its newly-authorized buyback, which should help drive earnings-per-share growth irrespective of market conditions.

The dividend has never really been a priority for Goldman but that has potentially changed with the updated payout. The new payout ratio is in excess of 20% so there is still a long runway for future growth. However, raising the dividend by nearly half signals that management values the dividend and this should bode well for those interested in dividend growth in the coming years.

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	9.2	10.5
Avg. Yld.	0.7%	0.9%	1.1%	1.6%	1.3%	1.3%	1.3%	1.5%	0.7%	1.4%	2.3%	2.0%

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 9.2 times this year's earnings, implying they are somewhat undervalued today. A rising valuation could add 2.8% 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 low-2% range. Goldman Sachs just raised its dividend from \$3.40 annually to \$5.00.

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%	21%	21%

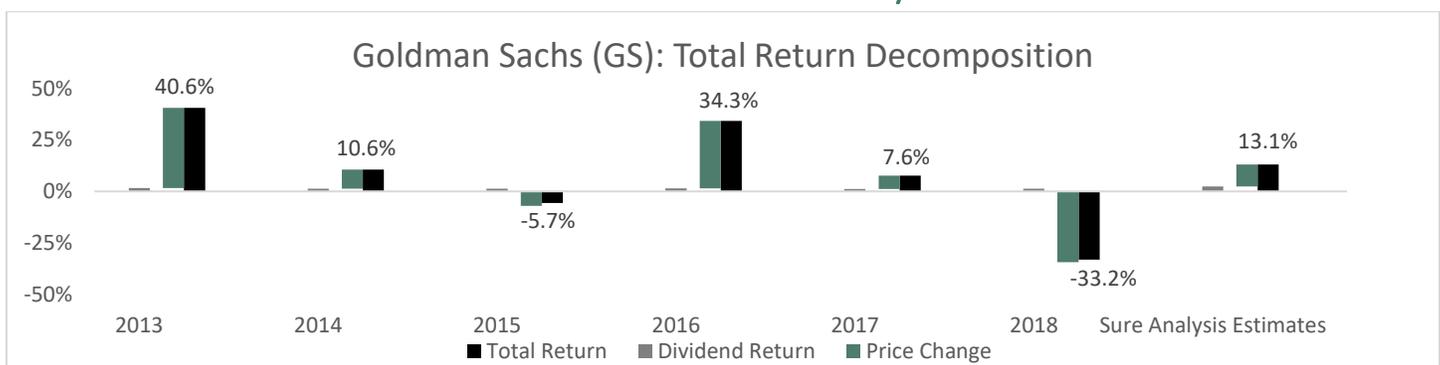
Goldman's payout ratio is still just a small fraction of earnings, meaning the dividend is ultra-safe, even after the 47% increase that was just announced.

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. However, 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, somewhat conservative pick in the financial space. We forecast total returns of 13.1% annually moving forward despite the recent rise in the share price. Robust forecasted earnings growth and a decent 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 Q2 report. We particularly like the firm's enormous capital return program that will meaningfully reduce the float, and boosted the dividend by 47%.

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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