



S&P Global (SPGI)

Updated August 11th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$256	5 Year CAGR Estimate:	4.5%	Volatility Percentile:	31.4%
Fair Value Price:	\$184	5 Year Growth Estimate:	10.0%	Momentum Percentile:	88.6%
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.4%	Growth Percentile:	91.9%
Dividend Yield:	0.9%	5 Year Price Target	\$296	Valuation Percentile:	12.2%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	21.7%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$63 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 Q2 earnings on 8/1/19 and results were once again very strong, as they have been for some time. Revenue was up 6% to \$1.7 billion as the company saw strength across the board. Ratings revenue rose 3% to \$801 million as transaction revenue was up 8%, but non-transaction revenue fell fractionally. Market Intelligence revenue was up 8% to \$487 million, including double-digit growth in Credit Risk Solutions and Data Management Solutions, while Desktop posted low-single digit growth. S&P Dow Jones Indices saw revenue increase 14% to \$235 million as asset-linked fees rose 18%, while Data & Custom subscriptions rose 21%, which were partially offset by a 6% decline in ETF derivative fees. Finally, Platts revenue was up 4% to \$213 million as the service saw broad growth.

Every segment also posted margin improvements in Q2, leading to 590 bps of operating margin improvement to 47.7% of revenue on a headline basis, while adjusted operating profits rose 220 bps to 51.3%.

Adjusted earnings-per-share rose 12% to \$2.43 year-over-year and guidance was updated to a new range of \$9.10 to \$9.25, a low single-digit improvement over the prior range. We've boosted our estimate for this year to \$9.20 from \$9.00 as a result of strong Q2 results and the updated guidance range.

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	\$9.20	\$14.82
DPS	---	---	---	---	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$4.50
Shares¹	---	---	---	---	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.

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, with Q2 results showing a reemergence of this trend. 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

¹ Share count in millions

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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 in comparison to the rest of the firm.

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	27.8	20.0
Avg. Yld.	---	---	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	0.9%	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 27.8 after a strong rally off of the December bottom and thus, is trading well in excess of our estimate of fair value. We see the reversion to a more normalized multiple as reducing total annual returns by 6.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

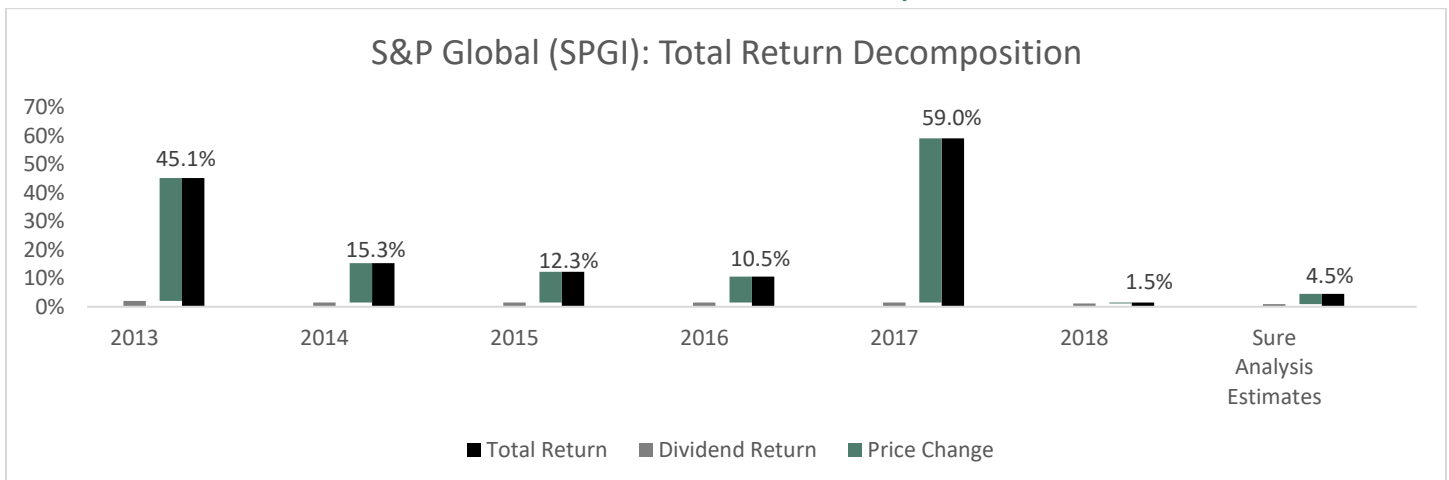
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	34%	31%	29%	27%	24%	24%	25%	30%

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. With earnings growth of 10%, we expect 4.5% average annual returns over the next five years after accounting for dividends and a sizable valuation headwind. S&P Global is a Dividend Aristocrat, but the extreme overvaluation has us cautious on the stock. We're downgrading from hold to sell after the strong rally.

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.

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