



Goldman Sachs (GS)

Updated October 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$208	5 Year CAGR Estimate:	10.3%	Volatility Percentile:	75.7%
Fair Value Price:	\$247	5 Year Growth Estimate:	8.0%	Momentum Percentile:	23.8%
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Growth Percentile:	79.8%
Dividend Yield:	2.4%	5 Year Price Target	\$309	Valuation Percentile:	86.7%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	91.7%

Overview & Current Events

Goldman Sachs was founded in 1869 and in the 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 \$75 billion market capitalization after a recent bout of weakness, and should produce about \$35 billion in revenue in 2019.

Goldman reported Q3 earnings on October 15th and results were somewhat weak, missing estimates and causing us to cut our earnings-per-share target for this year. Earnings-per-share came in at \$4.79 in Q3, which missed consensus of \$4.89, and marks yet another quarter where the investment bank has performed weaker than expected. Earnings-per-share were \$6.28 in the year-ago period, as Goldman generally has very volatile earnings, but Q3's decline was sizable.

Net interest income came in at just over \$1 billion, up 18% against last year's Q3. Provision for credit losses rose by two-thirds year-over-year, although on a dollar basis, it was manageable at \$291 million. Investment Banking revenue declined 15% year-over-year to \$1.7 billion, as underwriting and advisory revenue both suffered substantial declines. Institutional Client Services, which is Goldman's largest segment by far, saw revenue increase 6% year-over-year thanks to strong FICC and equities revenue, respectively. Investing and Lending revenue was down 17% year-over-year as equity securities revenue plummeted 40%, while debt securities revenue was up 10% year-over-year. Finally, Investment Management revenue was down 2% against last year's Q3 at \$1.7 billion.

Book value is up to \$219 per share, a small premium to the current share price. Due to another quarter of Goldman underperforming expectations, we've cut our estimate for 2019 earnings-per-share to \$22.

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	\$22.00	\$29.44
DPS	\$1.05	\$1.40	\$1.40	\$1.77	\$2.05	\$2.25	\$2.55	\$2.60	\$2.90	\$3.15	\$5.00	\$7.00
Shares¹	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. Due to sustained underperformance in earnings growth, we've cut our estimate to 6% annual expansion from the prior level of 8%. We see Goldman as struggling with volatile revenue streams and higher costs, which should contribute to slower growth.

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, Q3 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,

¹ Share count in millions

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despite current market conditions. Goldman can repurchase nearly 10% of its float in the next twelve months with its 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	9.5	10.5
Avg. Yld.	0.7%	0.9%	1.1%	1.6%	1.3%	1.3%	1.3%	1.5%	0.7%	1.4%	2.4%	2.3%

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 9.5 times this year's earnings, even on the reduced estimate, implying they could be somewhat undervalued today. A rising valuation could add modestly 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 recently 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%	23%	24%

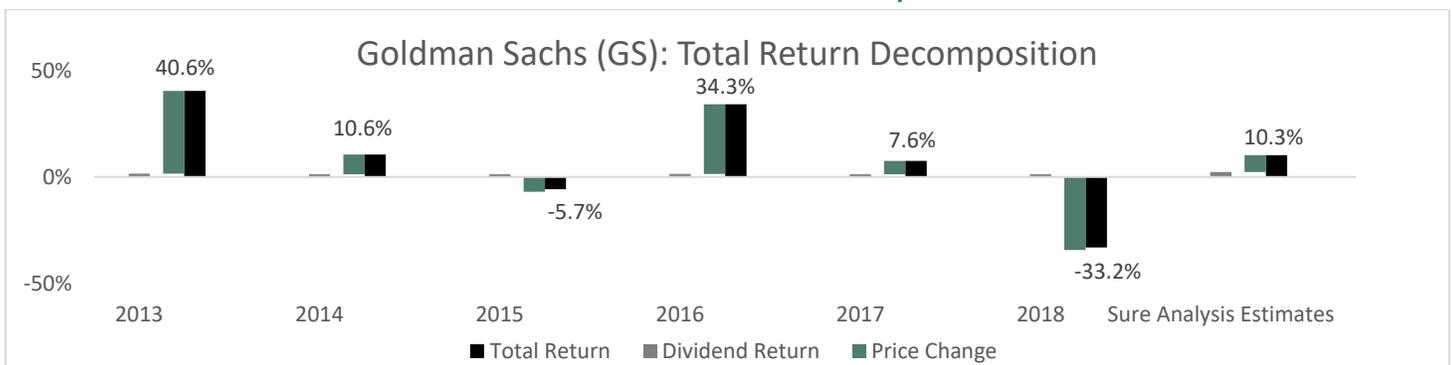
Goldman's payout ratio is still just a small fraction of earnings, meaning the dividend is ultra-safe, even after the 47% increase that was announced earlier this year.

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 10.3% annually moving forward despite the relatively weak earnings report. 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 continue to rate the stock a buy. We particularly like the firm's enormous capital return program that will meaningfully reduce the float, and seems to have ushered in a new philosophy surrounding the dividend.

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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