Intercontinental Exchange Inc. (ICE)

Updated November 18th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$93	**5 Year CAGR Estimate:**	8.5%	**Volatility Percentile:**	9.1%
Fair Value Price:	$75	**5 Year Growth Estimate:**	12.0%	**Momentum Percentile:**	61.7%
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Growth Percentile:**	95.2%
Dividend Yield:	1.1%	**5 Year Price Target**	$132	**Valuation Percentile:**	30.9%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	63.0%

Overview & Current Events

Intercontinental Exchange Inc is an operator of financial exchanges. The company owns the New York Stock Exchange, operates a derivatives exchange, operates an electronic marketplace for futures and over the counter energy contracts, and owns the leading soft commodity exchange. ICE also offers pricing and market data, risk management, and trading support. The company has two reporting segments: Trading & Clearing, and Data & Listings. Revenue is split at roughly 49% to 51% between the two. Total revenue in 2018 was $6.28B. The company has a current market capitalization of roughly $51.76B.

ICE reported outstanding Q3 2019 results on October 31, 2019. The company increased net revenue 11% to $1,336M from $1,200M and adjusted diluted EPS increased 25% to $1.06 from $0.85 on year-over-year basis. On a GAAP basis, diluted EPS increased 19% to $0.94 from $0.79 in comparable periods. Growth was broad-based and supported by a 200 bps rise in adjusted operating margin to 59%. Trading & Clearing revenue increased 21% to $669M in the quarter from $558M in the prior year driven by a large increase in fixed income & credit due to the acquisition, and growth in all platforms including energy, Ags & metals, financials, equities except OTC & other transactions. Revenue for Data & Listing increased 4% to $667M for the quarter from $642M in the prior year driven by increases in pricing & analytics, exchange data and feeds, and desktops and connectivity.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.85	$1.07	$1.38	$1.50	$1.63	$1.93	$2.43	$2.78	$2.95	$3.59	***$3.95***	***$6.96***
DPS	--	--	--	--	$0.13	$0.52	$0.58	$0.68	$0.80	$0.96	***$1.06***	***$1.87***
Shares[1]	368	367	362	362	575	565	595	595	596	569	***575***	***604***

ICE has grown the bottom line at a good clip since the last recession driven by both organic growth and acquisitions. ICE is an acquisitive company and bought NYSE Euronext in 2013 and Interactive Data in 2015 adding substantially to the top line. But the additional shares issued for the two purchases kept a lid on EPS growth. Organic growth will come from increased trading over time and new market and pricing data products. We have increased our earnings growth estimates for ICE. The company increased adjusted EPS at ~18% rate from 2006 to 2018. We are now forecasting on average annual 12% EPS growth out through 2024 accounting for the historical growth rates offset by lateness in the business cycle and slowing global economies. ICE initiated a dividend in 2013 and grew it at a double-digit rate since then, but the current yield is below the broader market average. We are forecasting on average 12% annual growth rate in the dividend. The current payout ratio is relatively low at only 27% and thus there is room for further increases.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.1	20.5	17.5	17.3	21.6	21.1	19.3	18.8	21.5	20.7	***23.5***	***19.0***
Avg. Yld.	--	--	--	--	--	0.4%	1.3%	1.2%	1.3%	1.3%	***1.1%***	***1.4%***

[1] Share count in millions.

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ICE is currently trading at an elevated valuation of 23.5 relative to a 10-year average price-to-earnings ratio of nearly 20.0. We use a valuation multiple of 19.0 discounting for increasing competition in data and lateness of the business cycle. Our fair value estimate remains $75. We have raised our 5-year price target to $132.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	--	--	--	--	8%	27%	24%	24%	27%	27%	***27%***	***27%***

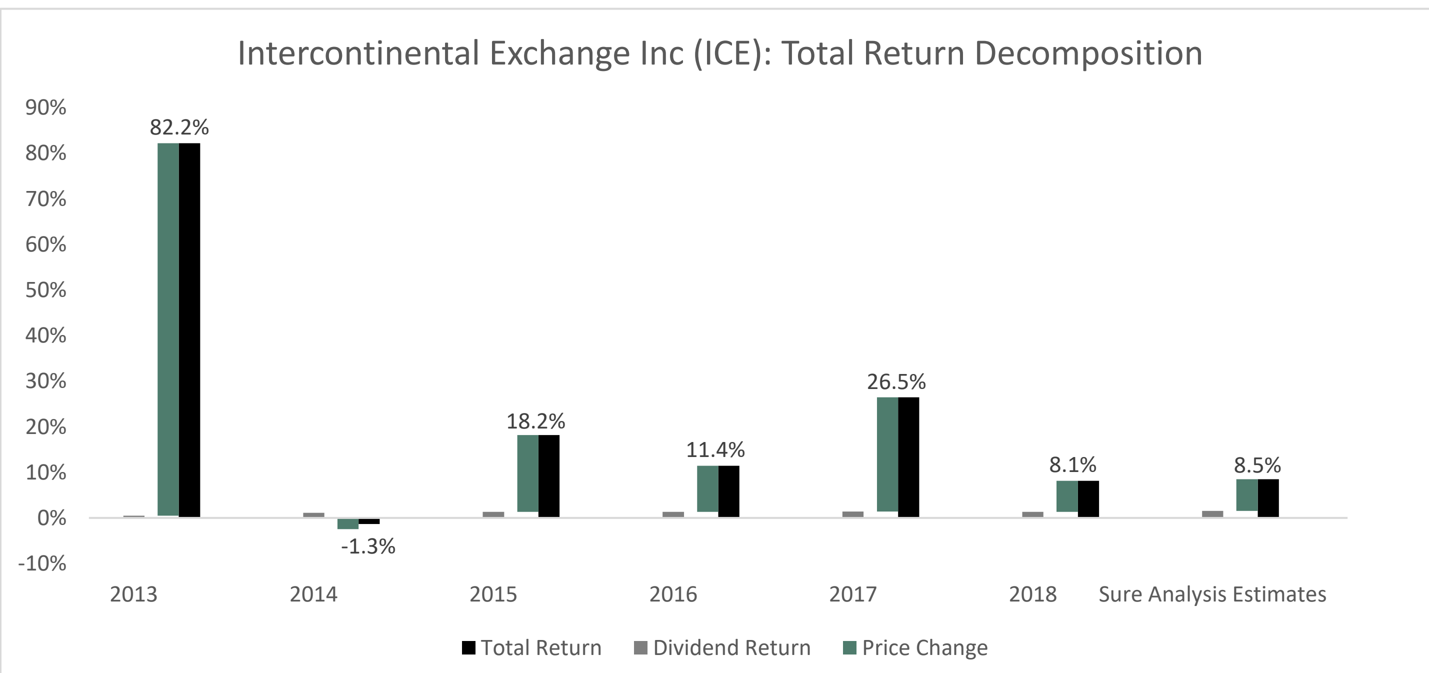
ICE's competitive advantage is its scale in trading, the NYSE brand, proprietary exchange products, and proprietary data in commodity futures and fixed-income data. The company can provide unique datasets that competitors do not have access to. Clients require this data for making decisions and ensuring best execution. Since datasets between competitors are not similar, ICE has a significant advantage for data derived from its exchanges. ICE does face some risks in changing regulatory environments and a decline in trading volumes. About 50% of ICE's revenue is dependent on trading. A downturn in trading activity during a recession will likely reduce ICE's top and bottom lines. During the Great Recession EPS exhibited a significant sequential quarterly decline from $0.26 in Q1 2008 to a bottom of $0.13 in Q4 2008 before recovering through 2009. By Q1 2010 quarterly EPS had returned to $0.27. The stock price declined severely during this time. Lastly, there is the omnipresent threat of cyber-attacks.

ICE makes use of debt for its acquisitions. Short-term debt was $1,329M and long-term debt was $6,496M at end of Q3 2019. This was offset by $655M in cash. The company is able to meets its obligations with interest coverage over ~10X.

Final Thoughts & Recommendation

At present we are forecasting an 8.5% annualized return through 2024. ICE is executing well and rapidly growing the top and bottom lines. We expect the dividend to increase at a robust clip as the payout ratio rises. With that said, the yield is low and there is not much interest here for those seeking income. We rate this stock a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	995	1150	1327	1363	1730	4352	4682	5971	5843	6276
Gross Profit			1327	1363	1598	3092	3338	4512	4638	4979
Gross Margin			100%	100%	92.4%	71.0%	71.3%	75.6%	79.4%	79.3%
SG&A Exp.	365	366	386	386	509	1182	1126	1650	1688	1776
D&A Exp.	111	121	132	131	156	333	374	610	535	586
Operating Profit	519	662	809	846	933	1577	1838	2252	2415	2617
Operating Margin	52.1%	57.6%	61.0%	62.1%	53.9%	36.2%	39.3%	37.7%	41.3%	41.7%
Net Profit	316	398	510	552	254	981	1274	1430	2526	1988
Net Margin	31.8%	34.6%	38.4%	40.5%	14.7%	22.5%	27.2%	23.9%	43.2%	31.7%
Free Cash Flow	442	486	626	665	556	1264	1034	1784	1728	2253
Income Tax	180	202	238	228	184	402	358	586	-28	500

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	21885	26642	36148	37215	64422	68254	77987	82003	78264	92791
Cash & Equivalents	552	622	823	1612	961	652	627	407	535	724
Accounts Receivable	109	114	136	127	546	508	700	777	903	953
Goodwill & Int. Ass.	2168	2807	2757	2737	18512	16315	22837	22711	22485	23547
Total Liabilities	19451	23825	32986	33538	52041	55862	63147	66249	61279	75560
Accounts Payable	57	65	66	70	477	546	514	519	590	626
Long-Term Debt	308	579	888	1132	5058	4277	7308	6364	6100	7441
Shareholder’s Equity	2400	2778	3122	3644	12349	12360	14808	15717	16957	17201
D/E Ratio	0.13	0.21	0.28	0.31	0.41	0.35	0.49	0.40	0.36	0.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.7%	1.6%	1.6%	1.5%	0.5%	1.5%	1.7%	1.8%	3.2%	2.3%
Return on Equity	14.3%	15.4%	17.3%	16.3%	3.2%	7.9%	9.4%	9.4%	15.5%	11.6%
ROIC	12.1%	13.0%	13.7%	12.5%	2.3%	5.8%	6.6%	6.5%	11.2%	8.3%
Shares Out.	368	367	362	362	575	565	595	595	596	569
Revenue/Share	2.69	3.09	3.59	3.73	4.38	7.60	8.38	9.97	9.84	10.84
FCF/Share	1.19	1.31	1.69	1.82	1.41	2.21	1.85	2.98	2.91	3.89

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