



Goldman Sachs (GS)

Updated January 18th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$249	5 Year CAGR Estimate:	7.6%	Market Cap:	\$88B
Fair Value Price:	\$257	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/28/2020
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	03/30/2020
Dividend Yield:	2.0%	5 Year Price Target	\$328	Years Of Dividend Growth:	9
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	31.7%

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 \$88 billion market capitalization after a recent bout of weakness, and should produce about \$37 billion in revenue in 2019.

Goldman Sachs reported Q4 and full-year earnings on January 15th and results fell short of consensus. However, it wasn't enough to stop the sizable rally shares have seen in recent weeks.

Total revenue was just under \$10 billion for Q4, rising 23% year-over-year. The gain was due to Asset Management and Global Markets revenue, which was up 20% against this year's Q3. Goldman was said to have exited its significant investment in Uber, as well as seeing big gains thanks to the broad market rally against what was a very weak Q4 last year for equities. Net interest income, which is a small fraction of total revenue, was up 7% year-over-year to \$1.07 billion. Total noninterest revenue was up 25% year-over-year on strong equity gains to \$8.9 billion.

Compensation and benefits expense equaled \$3.05 billion in Q4, up 64% year-over-year as incentive compensation expenses were materially higher due to operating goals being met. Other expenses were up almost 70% as net provisions for litigation soared. As a result, total operating expenses were up 42% year-over-year to \$7.3 billion.

Book value is now \$219 per share, essentially flat with Q3. Earnings-per-share came to \$4.69 against \$6.04 in the year-ago period thanks to much higher expenses. Litigation expenses marred 2019's results, and we see a rebound to more normalized levels for 2020, with our initial estimate coming in at \$24.50 in earnings-per-share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$14.90	\$4.51	\$14.13	\$15.46	\$17.07	\$18.32	\$16.36	\$19.76	\$25.27	\$21.03	\$24.50	\$31.27
DPS	\$1.40	\$1.40	\$1.77	\$2.05	\$2.25	\$2.55	\$2.60	\$2.90	\$3.15	\$4.15	\$5.00	\$7.00
Shares¹	508	485	465	446	430	419	398	390	384	367	355	325

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 5% annual expansion from the prior level of 6%. We see Goldman as struggling with volatile revenue streams and higher costs, which could contribute to slower growth.

We believe Goldman will continue 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, with Q4 results supporting this view. 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

¹ Share count in millions

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equities business, despite current market conditions. Goldman continues to buy back a lot of stock, 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, around 20%, leaves a long runway for future growth. Recently raising the dividend by 30%+ signals that management values the dividend, and this should bode well for those interested in dividend growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	10.4	29.1	7.9	10.2	10.2	10.5	10.3	6.3	9.2	9.7	10.2	10.5
Avg. Yld.	0.9%	1.1%	1.6%	1.3%	1.3%	1.3%	1.5%	0.7%	1.4%	2.0%	2.0%	2.1%

Goldman's average price-to-earnings multiple in normal times is about 10.5, which we see as fair value. Shares are trading for 10.2 times this year's earnings, implying the potential for a very small valuation tailwind. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	15%	62%	15%	16%	17%	19%	23%	20%	12%	20%	20%	22%

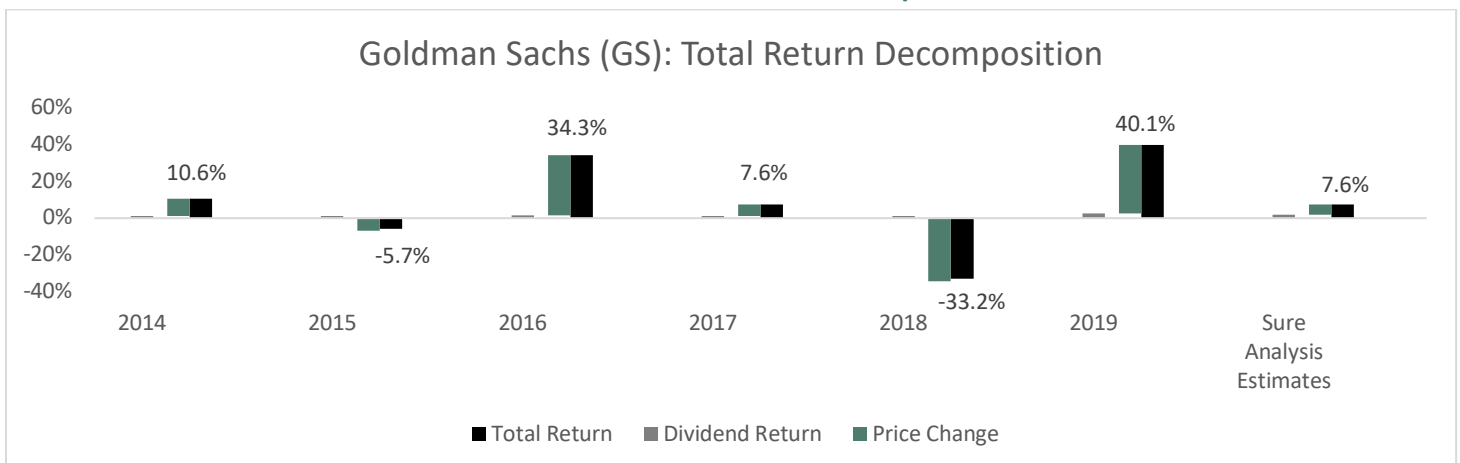
Goldman's payout ratio is still just a small fraction of earnings, meaning the dividend is ultra-safe, even after the big increase that was announced earlier this year.

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 a fairly valued, somewhat conservative pick in the financial space. We forecast total returns of 7.6% annually moving forward despite relatively weak 2019 earnings. Robust forecasted earnings growth and a decent valuation make the stock more attractive than it has been in recent times. However, given the recent rally, shares are now rated a hold due to lower projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	36880	26348	31955	31865	32027	31244	28053	29533	33416	
SG&A Exp.	17062	14220	14833	14106	14019	14041	12913	13338	14091	
D&A Exp.	1904	1869	1738	1322	1337	991	998	1152	N/A	
Net Profit	8354	4442	7475	8040	8477	6083	7398	4286	10459	
Net Margin	22.7%	16.9%	23.4%	25.2%	26.5%	19.5%	26.4%	14.5%	31.3%	
Free Cash Flow	-6584	21317	11918	3837	-8610	7648	4024	-20.9B	N/A	
Income Tax	4538	1727	3732	3697	3880	2695	2906	6846	2022	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	911.33	923.23	938.56	911.51	855.84	861.40	860.17	916.78	933.00	
Cash & Eq. (\$B)	39.79	120.27	122.34	110.80	109.32	93.44	121.71	110.05	130.00	
Acc. Rec. (\$B)	81.89	60.26	72.87	74.04	63.81	46.43	47.78	60.11	336.00	
Goodwill & Int.	5522	5468	5099	4376	4160	4148	4095	4038		
Total Liab. (\$B)	833.98	852.85	862.84	833.04	773.05	774.67	773.27	834.53	843.00	
Acc. Payable (\$B)	190.50	198.29	194.49	204.77	213.57	210.36	188.46	178.17	180.00	
LT Debt (\$B)	260.62	261.04	244.98	230.95	235.49	243.46	250.46	289.42	265.00	
Total Equity	70399	67279	69516	71267	73597	75528	75690	70390	90000	
D/E Ratio	3.37	3.71	3.24	2.94	2.84	2.81	2.88	3.52	2.94	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.9%	0.5%	0.8%	0.9%	1.0%	0.7%	0.9%	0.5%	1.1%	
Return on Equity	12.5%	6.5%	10.9%	11.4%	11.7%	8.2%	9.8%	5.9%	13.0%	
ROIC	2.6%	1.3%	2.3%	2.6%	2.7%	1.9%	2.2%	1.2%	2.9%	
Shares Out.	508	485	465	446	430	419	398	390	384	
Revenue/Share	63.01	47.31	61.92	63.78	67.68	68.13	64.47	72.19	85.64	
FCF/Share	-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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