



# Goldman Sachs (GS)

Updated April 18<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$183	<b>5 Year CAGR Estimate:</b>	14.4%	<b>Market Cap:</b>	\$63B
<b>Fair Value Price:</b>	\$257	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	05/29/2020
<b>% Fair Value:</b>	71%	<b>5 Year Valuation Multiple Estimate:</b>	7.0%	<b>Dividend Payment Date:</b>	06/29/2020
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$328	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	20.5%

## 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 \$63 billion market capitalization after a recent bout of weakness, and should produce about \$33 billion in revenue this year.

Goldman Sachs reported Q1 earnings on April 15<sup>th</sup> and results missed analyst estimates by a wide margin as a result of credit reserve builds thanks to the COVID-19 crisis. Indeed, provisions for credit losses came to \$937 million in Q1, more than quadruple the \$224 million it built in the same period last year. Goldman said its provisions were pressured thanks to higher expected corporate loan defaults and its exposure to the struggling energy sector.

Investment Banking revenue was \$2.2 billion, up 25% year-over-year. FICC revenue was \$3 billion, up 33% year-over-year. Equities revenue rose 22% year-over-year on higher market volatility, rising to \$2.2 billion. Asset Management revenue was negative, falling from \$1.8 billion in last year's Q1 to a loss of -\$96 million in this year's first quarter, due to significant net losses in Lending and Debt investments, as well as net losses in Equity. Consumer and Wealth Management net revenue soared 21% to \$1.5 billion year-over-year.

In total, however the sizable credit loss provision build sent earnings-per-share down to just \$3.11 in Q1, or about half of what was expected. We've slashed our estimate for earnings-per-share from \$24.50 to \$13.50 on these impacts.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$14.90	\$4.51	\$14.13	\$15.46	\$17.07	\$18.32	\$16.36	\$19.76	\$25.27	\$21.03	<b>\$13.50</b>	<b>\$31.27</b>
<b>DPS</b>	\$1.40	\$1.40	\$1.77	\$2.05	\$2.25	\$2.55	\$2.60	\$2.90	\$3.15	\$4.15	<b>\$5.00</b>	<b>\$7.00</b>
<b>Shares<sup>1</sup></b>	508	485	465	446	430	419	398	390	384	367	<b>355</b>	<b>325</b>

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 estimate 5% annual growth moving forward. 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 Q1 results supporting this view for the most part. 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, 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. We note that Goldman's buyback

<sup>1</sup> Share count in millions

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allocation has been impacted by the COVID-19 crisis, but that should be temporary, and we continue to expect the buyback to be a long-term tailwind for earnings-per-share.

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.

We also note that we've used normalized earnings power of \$24.50 per share for the fair value and valuation calculations as earnings of \$13.50 for this year are temporarily depressed, and not reflective of normalized operations.

## 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	7.5	10.5
Avg. Yld.	0.9%	1.1%	1.6%	1.3%	1.3%	1.3%	1.5%	0.7%	1.4%	2.0%	2.7%	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 7.5 times normalized earnings power, implying the potential for a very large valuation tailwind over time. We also see the rising dividend payment roughly keeping pace with stock growth, with the yield falling gradually to the low-2% range. Goldman Sachs recently raised its dividend to \$5.00 per share annually.

## 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%

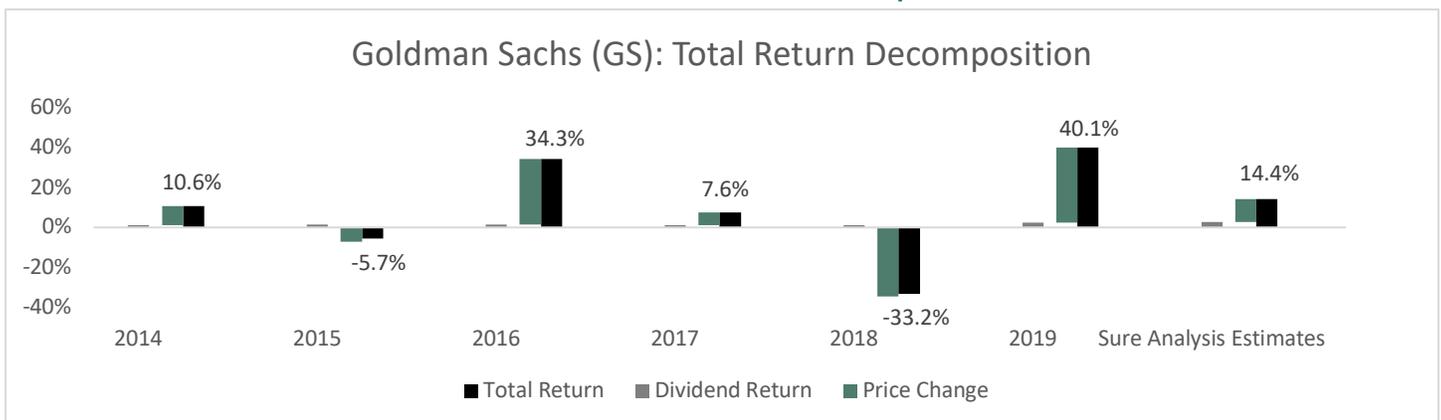
Goldman's payout ratio is still just a small fraction of earnings, meaning the dividend is ultra-safe, even after the big increase that was announced earlier this year. We don't see this changing in 2020 despite near-term challenges.

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 14.4% annually moving forward despite very weak Q1 earnings. Meaningful forecasted earnings growth and a terrific valuation make the stock more attractive than it has been in recent times. We are moving Goldman from hold to buy on the prospect of a rebound in its valuation in the coming years.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	36880	26348	31955	31865	32027	31244	28053	29533	33416	33294
<b>SG&amp;A Exp.</b>	17062	14220	14833	14106	14019	14041	12913	13338	14091	14259
<b>D&amp;A Exp.</b>	1904	1869	1738	1322	1337	991	998	1152	1328	1704
<b>Net Profit</b>	8354	4442	7475	8040	8477	6083	7398	4286	10459	8466
<b>Net Margin</b>	22.7%	16.9%	23.4%	25.2%	26.5%	19.5%	26.4%	14.5%	31.3%	25.4%
<b>Free Cash Flow</b>	-6584	21317	11918	3837	-8610	7648	3629	-23673	8582	15425
<b>Income Tax</b>	4538	1727	3732	3697	3880	2695	2906	6846	2022	2117

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	911.33	923.23	938.56	911.51	855.84	861.40	860.17	916.78	931.8	993.0
<b>Cash &amp; Eq. (\$B)</b>	39.79	120.27	122.34	110.80	109.32	93.44	121.71	110.05	130.5	133.5
<b>Acc. Rec. (\$B)</b>	81.89	60.26	72.87	74.04	63.81	46.43	47.78	84.79	72.46	74.61
<b>Goodwill &amp; Int.</b>	5522	5468	5099	4376	4160	4148	4095	4038	4082	4837
<b>Total Liab. (\$B)</b>	833.98	852.85	862.84	833.04	773.05	774.67	773.27	834.53	841.61	902.70
<b>Acc. Payable (\$B)</b>	190.50	198.29	194.49	204.77	213.57	210.36	188.46	178.17	180.24	174.82
<b>LT Debt (\$B)</b>	260.62	261.04	244.98	230.95	235.49	243.46	250.46	289.42	286.08	274.64
<b>Total Equity</b>	70399	67279	69516	71267	73597	75528	75690	70390	78982	79062
<b>D/E Ratio</b>	3.37	3.71	3.24	2.94	2.84	2.81	2.88	3.52	3.17	3.04

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	0.9%	0.5%	0.8%	0.9%	1.0%	0.7%	0.9%	0.5%	1.1%	0.9%
<b>Return on Equity</b>	12.5%	6.5%	10.9%	11.4%	11.7%	8.2%	9.8%	5.9%	14.0%	10.7%
<b>ROIC</b>	2.6%	1.3%	2.3%	2.6%	2.7%	1.9%	2.2%	1.2%	2.8%	2.3%
<b>Shares Out.</b>	508	485	465	446	430	419	398	390	384	367
<b>Revenue/Share</b>	63.01	47.31	61.92	63.78	67.68	68.13	64.47	72.19	85.64	88.67
<b>FCF/Share</b>	-11.25	38.28	23.09	7.68	-18.20	16.68	8.34	-57.87	21.99	41.08

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

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