



S&P Global (SPGI)

Updated April 29th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$296	5 Year CAGR Estimate:	5.6%	Market Cap:	\$71.3B
Fair Value Price:	\$240	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	05/25/20 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	06/11/20 ²
Dividend Yield:	0.9%	5 Year Price Target	\$369	Years Of Dividend Growth:	47
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	17.5%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$71 billion and revenue in the neighborhood of \$7 billion. It generates about half of its operating income from its ratings segment, 30% from market and commodities intelligence and the balance from S&P Dow Jones Indices. S&P Global's revenue is split roughly 55/45 between U.S. and International, respectively. S&P Global has paid dividends continuously since 1937 and is one of only 24 companies in the S&P 500 that has paid dividends for at least 47 years.

S&P Global reported first quarter earnings on April 28th and results were very strong, beating top and bottom line expectations. Revenue was up 14% to \$1.8 billion, as all four of its operating divisions posted gains once again. Adjusted operating margin soared 580bps to 53.1% of revenue as the company continues to post strong operating leverage gains thanks to additional revenue without commensurate costs.

Adjusted net income was up 27% to \$665 million, and adjusted diluted earnings-per-share increased 29% to \$2.73. The company noted productivity and cost saving gains in the first quarter, as well as reduced business travel driving margin gains.

The company returned \$1.3 billion to shareholders in Q1, \$161 million of which was through dividends, and the balance of which was through the company's robust share repurchase program. However, S&P Global said it wouldn't renew its buyback program that terminates in July until further notice. It also said it had no plans to change its current dividend policy, which is good news for income investors.

Due to cautious guidance from management, we've slightly reduced our earnings-per-share target for this year from \$10.50 to \$10.00, but note that S&P Global is holding up well in this challenging environment.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$10.00	\$15.39
DPS	---	---	---	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	\$4.72
Shares³	---	---	---	271	272	265	258	254	248	246	243	235

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. Lower global interest rates have continued to lead to more and more issuances of debt. In addition, the company has three other very strong segments that aren't as dependent upon rates remaining low, should they rise again in the future.

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.

¹ Estimated date

² Estimated date

³ Share count in millions

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S&P Global has grown consistently since the financial crisis, boosting revenue and operating margins on a regular basis, with 2019 results showing a continuation 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 9% earnings-per-share growth annually in the coming years. That is lower than the company's historical rate of growth, but given the immense growth the company has already seen, it is prudent to temper one's expectations. We think S&P Global has a very bright outlook, particularly given the reemergence of Ratings as the leader of the company's segments.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	19.2	21.1	21.8	20.3	20.9	22.6	24.2	29.6	24.0
Avg. Yld.	---	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.9%	1.3%

S&P Global's 5-year average price-to-earnings ratio is 21, but we're assessing fair value at 24 times earnings given the sustained, outstanding performances the company has produced. The stock is currently trading for a price-to-earnings ratio of 29.6 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 about -4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

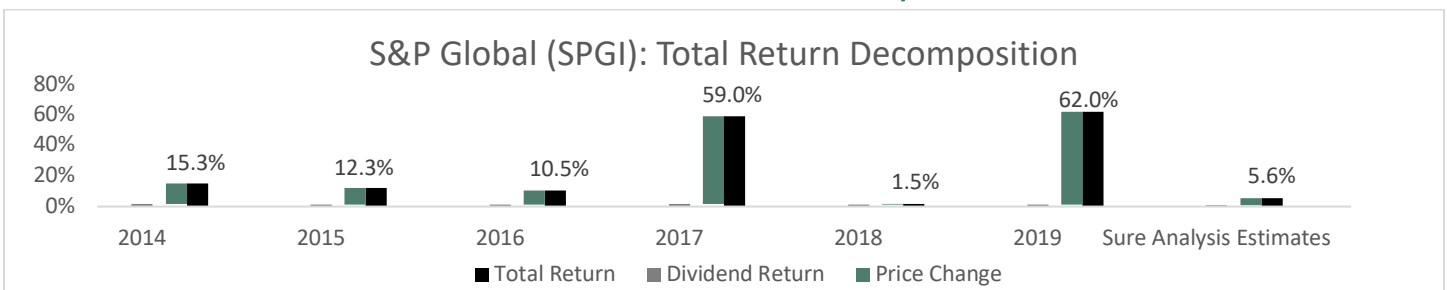
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	34%	31%	29%	27%	24%	24%	24%	27%	31%

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 earnings will likely come under pressure during this recession, even if damage is limited.

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 rapid pace in all its segments for years. With earnings growth of 9%, we expect 5.6% average annual returns over the next five years after accounting for dividends and the valuation headwind. S&P Global is a Dividend Aristocrat, but the sustained overvaluation has us cautious on the stock. We're upgrading the stock from sell to hold, but note that the stock is still trading well in excess of our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3639	3954	4270	4702	5051	5313	5661	6063	6258	6699
Gross Profit	2433	2567	2837	3138	3400	3595	3888	4368	4557	4898
Gross Margin	66.9%	64.9%	66.4%	66.7%	67.3%	67.7%	68.7%	72.0%	72.8%	73.1%
SG&A Exp.	1318	1377	1578	1631	3144	1532	1467	1605	1561	1517
D&A Exp.	108	126	141	137	134	157	181	180	206	204
Operating Profit	1026	1077	1170	1358	122	1906	2240	2583	2790	3177
Operating Margin	28.2%	27.2%	27.4%	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%
Net Profit	828	911	437	1376	-115	1156	2106	1496	1958	2123
Net Margin	22.8%	23.0%	10.2%	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%
Free Cash Flow	618	832	634	665	1117	217	1445	1893	1951	2661
Income Tax	344	374	388	425	245	547	960	823	560	627

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	7047	6620	7052	6061	6773	8183	8669	9425	9458	11348
Cash & Equivalents	1526	835	760	1542	2497	1481	2392	2777	1917	2866
Accounts Receivable	991	702	954	949	932	991	1122	1319	1449	1577
Goodwill & Int. Ass.	2551	1531	2519	2442	2391	4405	4455	4377	5059	4999
Total Liabilities	4755	5036	6212	4717	6234	7940	7968	8659	8774	10812
Accounts Payable	396	223	249	210	191	206	183	195	211	190
Long-Term Debt	1198	1198	1256	799	795	3611	3564	3569	3662	3948
Shareholder's Equity	2210	1508	767	1301	488	194	650	709	628	479
D/E Ratio	0.54	0.79	1.64	0.61	1.63	18.61	5.48	5.03	5.83	8.24

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	12.2%	13.3%	6.4%	21.0%	-1.8%	15.5%	25.0%	16.5%	20.7%	20.4%
Return on Equity	40.8%	49.0%	38.4%	133%	-12.9%	339%	499%	220%	293%	384%
ROIC	25.0%	29.1%	17.9%	64.9%	-6.6%	44.6%	51.9%	34.8%	45.1%	48.1%
Shares Out.	---	---	---	271	272	265	258	254	248	246
Revenue/Share	11.66	13.02	15.00	16.80	18.60	19.35	21.35	23.42	24.72	27.13
FCF/Share	1.98	2.74	2.23	2.38	4.11	0.79	5.45	7.31	7.71	10.78

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

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