SEI Investments (SEIC)

Updated February 4th, 2021 by Josh Arnold

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$7.9 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/11/20[1]
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Dividend Payment Date:**	06/23/20[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.7%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $7.9 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. SEI has about $260 billion in assets under management and nearly $800 billion in assets under administration. The company should produce about $1.9 billion in revenue this year.

SEI reported fourth quarter and full year earnings on January 27th, 2021 with results coming in better than expectations. Total revenue was up 5% year-over-year in Q4 to $444 million. For the year, revenue was up just 2% to $1.68 billion, including some negative impacts from COVID-19. Revenues from asset management, administration and distribution fees increased primarily from higher assets under administration, which in turn was due to new business and very strong market appreciation. Average assets under administration increased $108 billion, or 16% to $780 billion in Q4. Average assets under administration excluding LSV were up $21 billion, or 9% to $260 billion in Q4.

Operational expenses were up primarily due to increased consulting costs related to new business, and the company's investments in IT services offerings. Personnel costs rose as well, but that was partially offset by travel and promotional expenses. Earnings finished the year at $3.00 per share, and we expect SEI to get back to its former growth track in what should be a normalized year in 2021. We are initiating a forecast of $3.65 per share.

The company has taken the opportunity of a low valuation to repurchase 8 million shares in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	***$3.65***	***$5.36***
DPS	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	***$0.74***	***$1.09***
Shares[3]	177	172	169	167	164	159	157	159	154	146	***142***	***130***

From 2013 to 2019, SEI managed to double its earnings and looking forward, we believe that strong growth can continue. SEI saw higher earnings-per-share in each year since 2011, until the COVID-impacted 2020. We are forecasting 8% earnings-per-share growth over the next five years as 2021 should provide better growth rates moving forward. We see SEI achieving this result through continued revenue expansion as more customers adopt its SEI Wealth Platform, and its relatively newer IT services, as well as assets under management and advisement growth. We see mid-single-digit revenue growth as the primary driver of earnings going forward. SEI also buys back stock at low single-digit rates and is seeing margin expansion with its higher revenue. The key is revenue growth as SEI invests heavily in its future.

SEI's dividend growth has been decent in recent years but it is not a high-income stock at this point. We see dividend growth going forward, but keep in mind that investors own SEI for the earnings growth potential, not for the yield, and that is not going to change anytime soon. Indeed, the payout ratio remains very low and given how much SEI invests in its platform on a regular basis, in addition to share repurchases, we expect the payout ratio to remain fairly constant.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.1	17.4	18.4	19.0	24.4	22.6	22.3	20.3	15.8	18.3	***15.6***	***17.0***
Avg. Yld.	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	***1.3%***	***1.2%***

SEI's price-to-earnings multiple has come off of its recent highs, and it is now trading at just 15.6 times this year's earnings, which is below our estimate of fair value at 17 times earnings. Thus, we are forecasting a small tailwind to total returns from the valuation in the coming years. The dividend is not a priority for SEI as it continues to spend cash on its products and services to fuel future growth. This is not a stock one owns for the yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	24%	11%	33%	12%	23%	24%	25%	20%	21%	24%	***20%***	***20%***

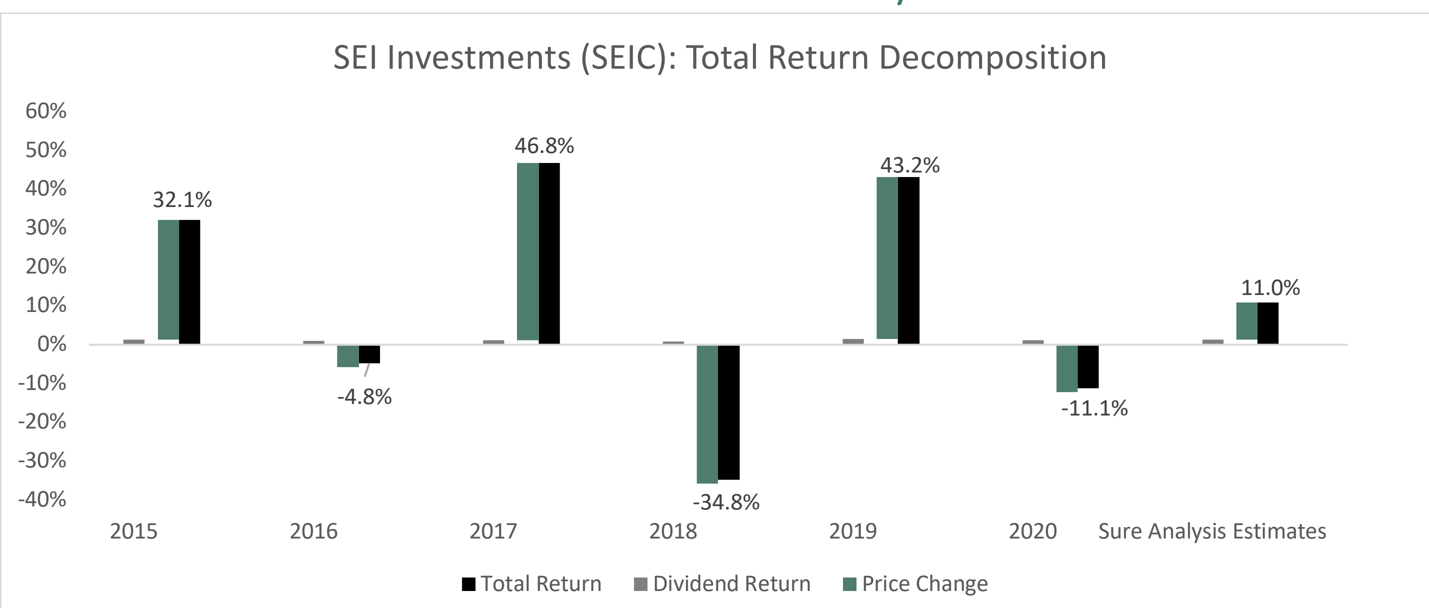
The payout ratio is very low as earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

SEI's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That does not make it immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEI serves, it is reasonable to expect material weakness during a recession, so that is something investors should take into account.

Final Thoughts & Recommendation

Overall, SEI looks like an undervalued stock with lots of growth potential. We are forecasting 11% total annual returns going forward, comprised of the small current yield, a small tailwind from the valuation, and 8% earnings-per-share growth. SEI may become an income stock in the future, but it is still very much in its growth stage, so that is a long way off. After 2020 results, we're reiterating SEI at a buy rating as the lower valuation has increased its attractiveness.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	930	993	1126	1266	1334	1402	1527	1624	1,650	1,684
Gross Profit	483	501	591	683	722	763	840	900	921	946
Gross Margin	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%
SG&A Exp.	230	233	285	269	298	316	367	380	379	416
D&A Exp.	49	56	57	61	67	72	76	78	81	---
Operating Profit	204	212	248	353	358	376	397	442	460	446
Operating Margin	21.9%	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%
Net Profit	205	207	288	319	332	334	404	506	501	447
Net Margin	22.0%	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%
Free Cash Flow	204	203	295	311	334	352	373	515	468	---
Income Tax	112	121	147	171	169	175	153	108	130	121

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1295	1310	1439	1543	1589	1637	1853	1972	2151	2,167
Cash & Equivalents	421	452	578	667	680	696	744	755	841	785
Accounts Receivable	64	78	84	97	95	110	133	126	140	440
Goodwill & Int. Ass.	309	307	313	309	291	296	392	406	389	360
Total Liabilities	253	252	283	295	299	334	377	379	413	427
Accounts Payable	2	11	16	11	5	6	5	11	4	8
Long-Term Debt	0	0	0	0	0	0	30	0	0	---
Shareholder's Equity	1025	1038	1156	1248	1290	1303	1477	1593	1739	1,740
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.3%	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%
Return on Equity	19.8%	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%
ROIC	18.7%	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%
Shares Out.	177	172	169	167	164	159	157	159	154	146
Revenue/Share	5.05	5.64	6.41	7.34	7.87	8.52	9.41	10.07	10.65	11.30
FCF/Share	1.11	1.16	1.68	1.80	1.97	2.14	2.30	3.19	3.02	---

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