



S&P Global (SPGI)

Updated February 15th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$339	5 Year CAGR Estimate:	7.9%	Market Cap:	\$81.7 B
Fair Value Price:	\$322	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/23/21
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	03/10/21
Dividend Yield:	0.9%	5 Year Price Target	\$474	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	14.9%

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$82 billion and revenue in the neighborhood of \$7.8 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 has increased its payout for 48 years.

S&P Global reported fourth quarter and full year earnings on February 9th, 2021 with results coming in mixed as the company beat revenue expectations but missed on adjusted earnings. Revenue was up 8% during Q4 from the year-ago period to \$1.87 billion, on growth in all four of its business lines. For the year, revenue was up 11% to \$7.44 billion.

Net income was up 5% during the quarter on an adjusted basis, rising to \$654 million. This was due to revenue growth, productivity improvements, and a lower tax rate, which were partially offset by increased investment spending.

Adjusted earnings-per-share rose 7% to \$2.71, with the difference being a -2% decline in the share count. For the year, adjusted net income was up 20% to \$2.83 billion, and on a per-share basis, adjusted earnings rose 23% to \$11.69.

Management said the vote on the IHS Markit merger will take place on March 11th, and that it is seeking regulatory approval in the appropriate countries.

The company also returned \$1.8 billion of capital to shareholders, with \$645 million in dividends and the balance in share repurchases. The company guided for a mid-single digit revenue increase for this year, as well as adjusted earnings-per-share of \$12.25 to \$12.45. However, given S&P Global's propensity to underestimate earnings, our initial estimate is for \$12.40 in earnings-per-share for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$11.69	\$12.40	\$18.22
DPS	---	---	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	\$3.08	\$5.43
Shares¹	---	---	271	272	265	258	254	248	246	241	236	215

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.

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 8% earnings-per-

¹ Share count in millions

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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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. S&P Global has shown it can continue to raise operating margins and boost the top line organically and via acquisitions.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	19.2	21.1	21.8	20.3	20.9	22.6	24.2	27.1	27.3	26.0
Avg. Yld.	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.9%	1.1%

S&P Global's 5-year average price-to-earnings ratio is 23, but we're assessing fair value at 26 times earnings given the sustained, outstanding performances the company has produced. The stock is currently trading for a price-to-earnings ratio of 27.3 and thus, is trading slightly in excess of our estimate of fair value, despite a stagnant share price since our last update. We see the reversion to a more normalized multiple as impacting total returns slightly in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

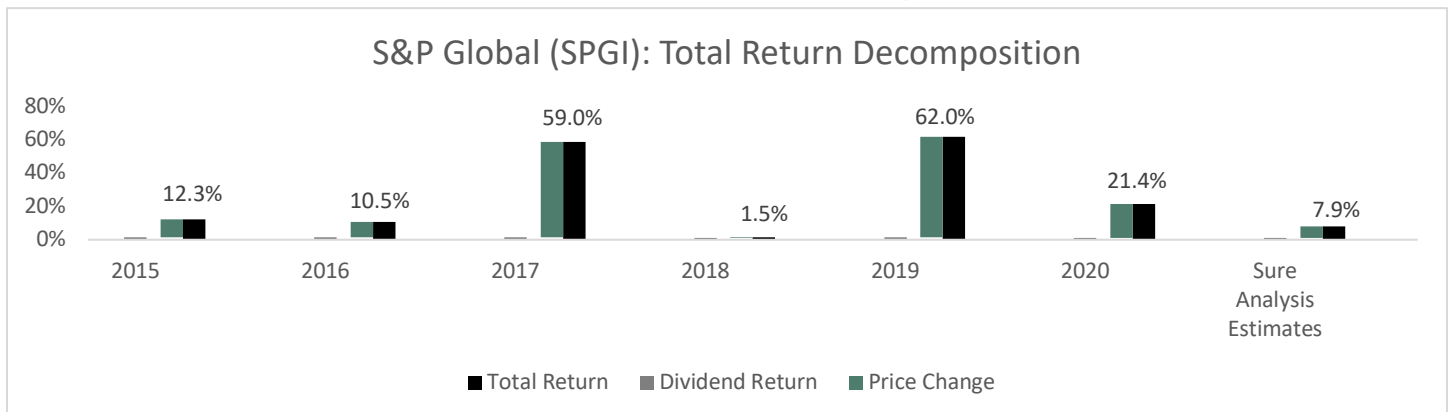
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	34%	31%	29%	27%	24%	24%	24%	23%	25%	30%

The most important feature of S&P Global is its strong competitive position. 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. To its credit, S&P Global's earnings thrived in 2020 despite a sharp recessionary period.

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 8%, we expect 7.9% 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 reiterating the stock at a hold rating, although we note the valuation has improved since our last update.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3954	4270	4702	5051	5313	5661	6063	6258	6699	7,442
Gross Profit	2567	2837	3138	3400	3595	3888	4368	4557	4898	5,350
Gross Margin	64.9%	66.4%	66.7%	67.3%	67.7%	68.7%	72.0%	72.8%	73.1%	71.9%
SG&A Exp.	1377	1578	1631	3144	1532	1467	1605	1561	1517	1,543
D&A Exp.	126	141	137	134	157	181	180	206	204	206
Operating Profit	1077	1170	1358	122	1906	2240	2583	2790	3177	3,601
Operating Margin	27.2%	27.4%	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%
Net Profit	911	437	1376	-115	1156	2106	1496	1958	2123	2,339
Net Margin	23.0%	10.2%	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%
Free Cash Flow	832	634	665	1117	217	1445	1893	1951	2661	3,491
Income Tax	374	388	425	245	547	960	823	560	627	694

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6620	7052	6061	6773	8183	8669	9425	9458	11348	12,537
Cash & Equivalents	835	760	1542	2497	1481	2392	2777	1917	2866	4,108
Accounts Receivable	702	954	949	932	991	1122	1319	1449	1577	1,593
Goodwill & Int. Ass.	1531	2519	2442	2391	4405	4455	4377	5059	4999	5,087
Total Liabilities	5036	6212	4717	6234	7940	7968	8659	8774	10812	11,966
Accounts Payable	223	249	210	191	206	183	195	211	190	233
Long-Term Debt	1198	1256	799	795	3611	3564	3569	3662	3948	4,110
Shareholder's Equity	1508	767	1301	488	194	650	709	628	479	509
D/E Ratio	0.79	1.64	0.61	1.63	18.61	5.48	5.03	5.83	8.24	8.07

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.3%	6.4%	21.0%	-1.8%	15.5%	25.0%	16.5%	20.7%	20.4%	19.6%
Return on Equity	49.0%	38.4%	133%	-12.9%	339%	499%	220%	293%	384%	474%
ROIC	29.1%	17.9%	64.9%	-6.6%	44.6%	51.9%	34.8%	45.1%	48.1%	51.0%
Shares Out.	---	---	271	272	265	258	254	248	246	241
Revenue/Share	13.02	15.00	16.80	18.60	19.35	21.35	23.42	24.72	27.13	30.74
FCF/Share	2.74	2.23	2.38	4.11	0.79	5.45	7.31	7.71	10.78	14.42

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

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