



S&P Global (SPGI)

Updated May 19th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$370	5 Year CAGR Estimate:	5.6%	Market Cap:	\$89 B
Fair Value Price:	\$332	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	05/25/21
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	06/10/21
Dividend Yield:	0.8%	5 Year Price Target	\$465	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 \$89 billion and revenue of \$7.9 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 first quarter earnings on April 29th, 2021, and results came in better than expectations on both the top and bottom lines. Total revenue was up 13% year-over-year to just over \$2 billion, as ratings revenue soared 23% to \$1.02 billion, leading the way in terms of growth. The company's other segments all posted growth as well, but each came in at 5% year-over-year growth or less. Earnings came to \$820 million on an adjusted basis, up 23% year-over-year. On a per-share basis, adjusted earnings were up 24% to \$3.39.

S&P Global said it took merger-related costs in Q1 against its pending combination with IHS Markit, a deal which will see shareholders of the latter receive 0.2838 shares of the former. The deal is still expected to close in the second half of this year, and S&P Global said the combined companies were considering certain divestitures to meet anti-trust regulatory requirements, including IHS Markit's Oil Price Information Services and IHS Markit's Coal, Metals, and Mining businesses, respectively.

We've boosted our estimate of earnings-per-share for this year to \$12.75 for S&P Global, which for now, does not include any combination with IHS Markit.

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	\$12.75	\$17.88
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 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 2020 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 7% 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

¹ Share count in millions

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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. We will re-rate these estimates when and if the combination with IHS Markit is consummated.

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	29.0	26.0
Avg. Yld.	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.8%	1.2%

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 at a price-to-earnings ratio of 29 and thus, is 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

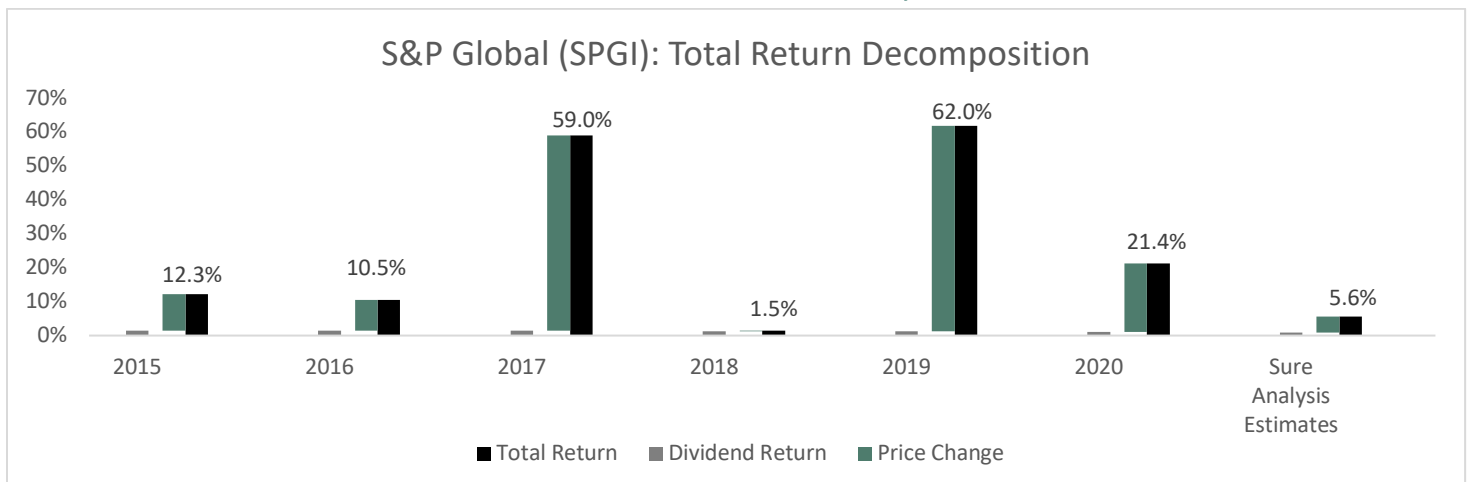
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	34%	31%	29%	27%	24%	24%	24%	23%	24%	30%

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 7%, 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 reiterating the stock at a hold rating.

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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