



# S&P Global (SPGI)

Updated August 13<sup>th</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$437	<b>5 Year CAGR Estimate:</b>	2.8%	<b>Market Cap:</b>	\$105 B
<b>Fair Value Price:</b>	\$342	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/25/21
<b>% Fair Value:</b>	128%	<b>5 Year Valuation Multiple Estimate:</b>	-4.8%	<b>Dividend Payment Date:</b>	09/10/21
<b>Dividend Yield:</b>	0.7%	<b>5 Year Price Target</b>	\$480	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	14.9%

## Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$105 billion and revenue of just over \$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 consecutive years.

S&P Global reported second quarter earnings on July 29<sup>th</sup>, 2021, and results came in well ahead of expectations on both the top and bottom lines. Total revenue came to \$2.11 billion, up 8.8% year-over-year, and beating estimates by nearly 5%, as strength was seen across the company's business lines.

Adjusted operating profit was down 40bps against the year-ago quarter to 58.3% of revenue, due primarily to tough expense comparables from the year-ago period, as well as elevated compensation expenses in 2021. Operating profit was up 5% to \$729 million, while adjusted operating profit margin was down 100bps to 68.1% of revenue, given the same challenges for the margin rate. Adjusted net income was up 6% to \$875 million and adjusted diluted earnings-per-share rose to \$3.62, a 6% improvement upon last year's Q2. Following very strong results once again in Q2, we've boosted our estimate of earnings-per-share for this year to \$13.15.

S&P Global said its merger with HIS Markit continues to progress and that the companies expect the transaction to be completed in the fourth quarter of this year.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	---	---	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$11.69	<b>\$13.15</b>	<b>\$18.44</b>
<b>DPS</b>	---	---	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	<b>\$3.08</b>	<b>\$5.43</b>
<b>Shares<sup>1</sup></b>	---	---	271	272	265	258	254	248	246	241	<b>242</b>	<b>230</b>

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 very bright outlook, particularly given the reemergence of Ratings as the leader of the company's segments. S&P Global

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

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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, which it appears it will be.

## 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	33.2	26.0
Avg. Yld.	---	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.7%	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 at a price-to-earnings ratio of 33.2 and thus, is meaningfully in excess of our estimate of fair value, particularly given the rally since our last update. We see the reversion to a more normalized multiple as impacting total returns moderately 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%	23%	29%

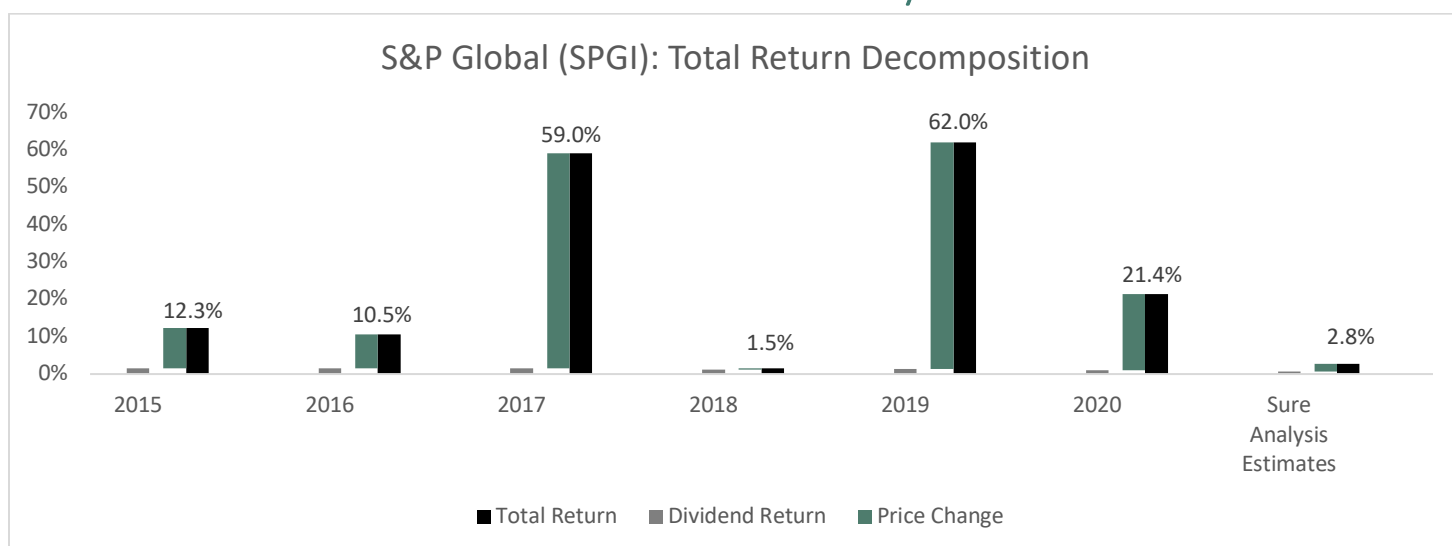
The most important feature of S&P Global is its strong competitive position. It operates in the highly concentrated financial ratings industry where the three well-known rating agencies control over 90% of global financial debt ratings.

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 2.8% 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 downgrading the stock to a sell rating on poor prospective returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	6620	7052	6061	6773	8183	8669	9425	9458	11348	12,537
<b>Cash &amp; Equivalents</b>	835	760	1542	2497	1481	2392	2777	1917	2866	4,108
<b>Accounts Receivable</b>	702	954	949	932	991	1122	1319	1449	1577	1,593
<b>Goodwill &amp; Int. Ass.</b>	1531	2519	2442	2391	4405	4455	4377	5059	4999	5,087
<b>Total Liabilities</b>	5036	6212	4717	6234	7940	7968	8659	8774	10812	11,966
<b>Accounts Payable</b>	223	249	210	191	206	183	195	211	190	233
<b>Long-Term Debt</b>	1198	1256	799	795	3611	3564	3569	3662	3948	4,110
<b>Shareholder's Equity</b>	1508	767	1301	488	194	650	709	628	479	509
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	13.3%	6.4%	21.0%	-1.8%	15.5%	25.0%	16.5%	20.7%	20.4%	19.6%
<b>Return on Equity</b>	49.0%	38.4%	133%	-12.9%	339%	499%	220%	293%	384%	474%
<b>ROIC</b>	29.1%	17.9%	64.9%	-6.6%	44.6%	51.9%	34.8%	45.1%	48.1%	51.0%
<b>Shares Out.</b>	---	---	271	272	265	258	254	248	246	241
<b>Revenue/Share</b>	13.02	15.00	16.80	18.60	19.35	21.35	23.42	24.72	27.13	30.74
<b>FCF/Share</b>	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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