



Moody's Corporation (MCO)

Updated February 13th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$332	5 Year CAGR Estimate:	8.6%	Market Cap:	\$62 B
Fair Value Price:	\$329	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/24/22
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	03/18/22
Dividend Yield:	0.8%	5 Year Price Target	\$483	Years Of Dividend Growth:	13
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	12.9%

Overview & Current Events

Moody's was created back in 1909, becoming the first company to analyze securities and rate their investment quality for investors on a large scale. Moody's began with its *Analyses of Railroad Investments* in 1909 and has blossomed into the company we know today, with \$6.7 billion in annual revenue and a market capitalization of about \$62 billion.

Moody's is still one of the largest players in the traditional ratings business but has transformed itself in recent years by investing heavily in data and analytics, which is less cyclical and has very strong margins.

Moody's reported fourth quarter and full-year earnings on February 10th, 2022, and results were very strong, but still missed what were very high expectations. Earnings-per-share for the quarter came to \$2.33, which missed consensus by six cents. Revenue, on the other hand, soared 19% to \$1.54 billion, which was \$30 million better than expected.

Moody's produced broad-based gains in revenue once again. Moody's Investors Service was up 19%, with three of the four businesses within that segment showing increases. Gains were led by Structured Finance, which produced a two-thirds increase year-over-year to \$161 million. Moody's Analytics revenue was up 20%, rising to \$668 million. Recurring revenue was up 22%, but on an organic basis, was up 8%. Of the subsegments, Enterprise Risk Solutions led the way with 42% growth year-over-year, to \$454 million.

Operating income was \$514 million, up 16% year-over-year. On an adjusted basis, operating income was \$589 million, up 11%. Adjusted operating margin was 38.3% for the quarter, with MIS producing operating margins of 53.6%, and MA producing 14.9%. Earnings-per-share flew higher once again in 2021, rising 21% after a similar gain in 2020.

We've initiated our coverage of 2022 at \$12.65 in earnings-per-share, consistent with management's guidance.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.05	\$3.60	\$4.21	\$4.60	\$4.81	\$6.07	\$7.39	\$8.29	\$10.15	\$12.29	\$12.65	\$18.59
DPS	\$0.64	\$0.90	\$1.12	\$1.36	\$1.48	\$1.14	\$1.76	\$2.00	\$2.24	\$2.48	\$2.80	\$4.72
Shares¹	224	214	203	196	191	191	191	187	187	186	186	184

Moody's earnings-per-share history is quite strong as it has seen profit growth in every year in the past decade. Moody's earnings growth has averaged 15% per year over the last decade. While we do not believe that sort of performance is sustainable in the long run, we forecast 8% earnings-per-share growth moving forward from 2022's very high base.

Moody's can achieve this result by continuing its long tradition of buying growth, as we saw with the Bureau van Dijk purchase and the smaller purchases made in the years since, as well as a smaller amount of organic revenue growth. The company's operating costs have hampered earnings growth at times in the past as growing revenue at rapid rates can be expensive, and we believe this will continue to be the case moving forward. However, longer term tailwinds are in place for Moody's as it continues to feed seemingly insatiable investor demand for real-time analytical data on a wide variety of global securities. Keep in mind the core US business is growing relatively slowly and as such, Moody's relies almost entirely upon the global business for expansion, exposing it to currency risk over time as well. In addition, the company continues its torrid pace of targeted acquisitions to help it grow.

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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We see the dividend as growing at roughly the same rate as earnings-per-share and we are forecasting a payout of \$4.72 in five years. Moody's has not shown the dividend to be a priority, as it is instead focused on business growth. Even so, the 2022 dividend increase was nearly 13%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.5	17.5	20.8	22.3	20.4	20.6	22.3	23.7	26.1	28.1	26.2	26.0
Avg. Yld.	1.6%	1.4%	1.3%	1.3%	1.5%	0.9%	1.1%	1.0%	0.8%	0.7%	0.8%	1.0%

The valuation for Moody's has moved around significantly in the past decade after hitting its lowest point in 2011 at 13.5. Today's price-to-earnings ratio of is essentially in line with our estimate of fair value at 26, meaning it is fairly valued for the first time in quite a while following a massive selloff since our last update. That implies essentially no impact to annual returns from the valuation over time. We see the yield ticking higher over time as dividend growth could outpace that of earnings growth, but the yield should remain below the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	26%	23%	29%	30%	25%	24%	24%	22%	20%	22%	25%

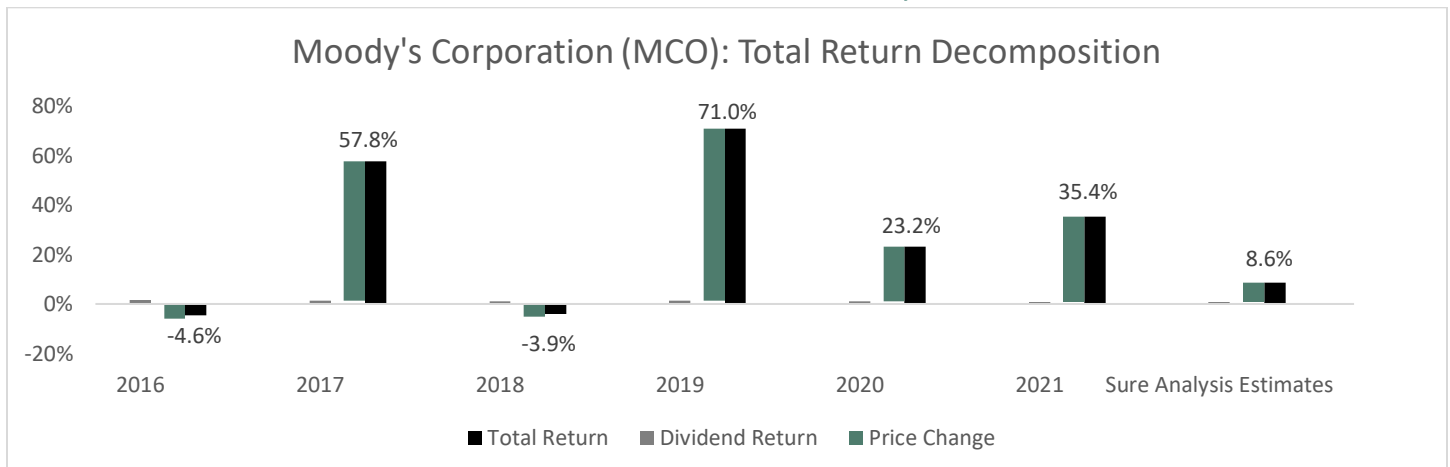
Moody's payout ratio is just one-fifth of earnings, which is in-line with its historical norms. We do not believe that will change materially in the years to come as the company continues to grow earnings rapidly, and as it focuses on growth more than a high dividend yield.

Moody's competitive advantage is that it was the company that basically created the industry more than 100 years ago. Its recent acquisitions and internal product advancements have kept it relevant with data-hungry investors. Moody's product assortment is strong at a time when competition is tougher than ever, and we think that will serve Moody's well during future recessions, which should not crimp earnings unduly.

Final Thoughts & Recommendation

Overall, Moody's looks like a strong growth story that is now fairly valued. We are forecasting 8.6% in total annual returns moving forward, consisting of the 0.8% current yield, 8% earnings-per-share growth and essentially no impact from the valuation. Moody's looks well-positioned for further growth, and because of the sizable selloff in the stock, we are upgrading from sell to hold. The stock is now much more attractive than it has been in recent quarters.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,730	2,973	3,334	3,485	3,604	4,204	4,443	4,829	5,371	6,218
Gross Profit	1,935	2,150	2,404	2,508	2,585	2,988	3,197	3,442	3,896	4,581
Gross Margin	70.9%	72.3%	72.1%	72.0%	71.7%	71.1%	72.0%	71.3%	72.5%	73.7%
SG&A Exp.	752	822	869	921	931	986	1,080	1,167	1,229	1,480
D&A Exp.	94	93	96	114	127	158	192	200	220	---
Operating Profit	1,102	1,254	1,446	1,480	1,528	1,844	1,925	2,075	2,447	2,844
Op. Margin	40.4%	42.2%	43.4%	42.5%	42.4%	43.9%	43.3%	43.0%	45.6%	45.7%
Net Profit	690	805	989	941	267	1,001	1,310	1,422	1,778	2,214
Net Margin	25.3%	27.1%	29.7%	27.0%	7.4%	23.8%	29.5%	29.4%	33.1%	35.6%
Free Cash Flow	778	885	944	1,109	1,144	664	1,370	1,606	2,043	---
Income Tax	324	353	455	430	282	779	352	381	452	541

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,961	4,395	4,669	5,103	5,327	8,594	9,526	10,265	12,409	14,680
Cash & Equivalents	1,755	1,920	1,220	1,757	2,052	1,072	1,685	1,832	2,597	1,811
Acc. Receivable	622	694	792	802	887	1,147	1,287	1,419	1,430	---
Goodwill & Int.	864	887	1,367	1,275	1,320	5,385	5,347	5,220	6,380	---
Total Liabilities	3,564	4,047	4,626	5,436	6,355	8,709	8,870	9,434	10,646	11,764
Accounts Payable	14	16	19	22	28	22	30	38	39	---
Long-Term Debt	1,671	2,102	2,547	3,381	3,363	5,541	5,676	5,581	6,422	---
Total Equity	385	337	-188	(565)	-1,225	-328	459	612	1,569	2,916
D/E Ratio	4.34	6.24	-13.56	(5.98)	-2.75-	-16.91	12.37	9.12	4.09	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	20.2%	19.3%	21.8%	19.3%	5.1%	14.4%	14.5%	14.4%	15.7%	16.3%
Return on Equity	638.3%	222.8%	---	---	---	---	---	266%	163%	98.7%
ROIC	43.8%	35.6%	39.2%	33.4%	9.9%	25.8%	22.3%	22.3%	24.4%	39.9%
Shares Out.	224	214	203	196	191	191	191	187	187	186
Revenue/Share	12.05	13.30	15.53	17.13	18.45	21.65	22.85	25.20	28.37	33.09
FCF/Share	3.43	3.96	4.40	5.45	5.85	3.42	7.05	8.38	10.79	---

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

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