



# State Street Corp. (STT)

Updated May 27<sup>th</sup>, 2022, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	16.3%	<b>Market Cap:</b>	\$25 B
<b>Fair Value Price:</b>	\$98	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	6/30/22
<b>% Fair Value:</b>	73%	<b>5 Year Valuation Multiple Estimate:</b>	6.5%	<b>Dividend Payment Date:</b>	7/11/22
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$137	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

State Street Corporation is a Boston based financial services company which traces its roots back to 1792. It trades under the ticker STT and has raised its dividend for 12 consecutive years. State Street is one of the largest asset management firms in the world, with approximately \$4 trillion of assets under management and \$41 trillion of assets under custody and administration. The company trades with a \$25 billion market capitalization.

In September of 2021, State Street announced the acquisition of Brown Brothers Harriman Investor Services for \$3.5 billion, which would make State Street the number one asset servicing firm globally. Asset servicing provides back-end operations for many of the world's most popular funds and ETF's. State Street's main competitors include BlackRock, Bank of New York Mellon, and Vanguard.

In mid-April, State Street reported (4/14/22) financial results for the first quarter of fiscal 2022. Total revenue grew 4% over last year's quarter thanks to higher management fees and trading services. Net interest income grew 9% thanks to higher interest rates while total expenses remained essentially flat. As a result, earnings-per-share grew 16%, from \$1.37 to \$1.59, and exceeded the analysts' consensus by \$0.11. Despite the strong performance of State Street, we prefer to lower our forecast for its annual earnings-per-share by 2%, from \$7.97 to \$7.80, to be on the safe side.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$4.20	\$4.43	\$4.53	\$4.77	\$5.40	\$5.67	\$6.89	\$6.00	\$6.78	\$7.52	<b>\$7.80</b>	<b>\$10.94</b>
<b>DPS</b>	\$0.96	\$1.04	\$1.16	\$1.32	\$1.44	\$1.60	\$1.78	\$1.98	\$2.08	\$2.18	<b>\$2.28</b>	<b>\$3.32</b>
<b>Shares<sup>1</sup></b>	481	455	432	414	396	380	376	374	357	358	<b>350</b>	<b>315</b>

Over the past 10 years State Street has grown its dividend at an average annual rate of 11.7%. Going forward, we see the ability for continued growth thanks to the organic growth of equity flows, acquisitions, and the relatively conservative payout ratio of the firm. We consider this a defensive, low-risk stock, which is appropriate for those looking for stable dividend income that can grow faster than inflation in the upcoming years.

In the past few years, State Street has benefitted from new equity inflows as well as a market rally. The bank's asset management business, State Street Global Advisors, also benefitted from stock market gains and flows into ETF's. The firm will rely on the growth of flows into the equity market as well as acquisitions. Management claims to need about \$1.5 trillion in new business annually to stick to growth targets.

We are forecasting growth of earnings-per-share of 7% per year over the next five years. State Street has announced the repurchase of \$3.0 billion of shares until the end of 2023. This amount represents 12% of the current share count. Organic earnings growth has been about 2.9% per year, while the share count has contracted by more than -3% per year over the last decade. Organic growth, share repurchases and inorganic growth through strategic acquisitions provide the basis of our earnings-per-share growth estimate.

<sup>1</sup> 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.



# State Street Corp. (STT)

Updated May 27<sup>th</sup>, 2022, by Aristofanis Papadatos

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	10.3	14.0	15.4	16.6	12.9	14.7	14.1	11.2	10.4	11.3	9.1	12.5
Avg. Yld.	2.2%	1.6%	1.6%	1.8%	2.2%	1.8%	2.0%	3.1%	3.2%	2.6%	3.2%	2.4%

State Street is currently trading at a 10-year low price-to-earnings ratio of 9.1, which is much lower than its 10-year average of 13.1. The cheap valuation has resulted from the surge of inflation to a 40-year high and fears of an upcoming recession. We view these headwinds as temporary and assume a fair price-to-earnings ratio of 12.5 for this stock. If the stock trades at its fair valuation level in five years, it will enjoy a 6.5% annualized valuation tailwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

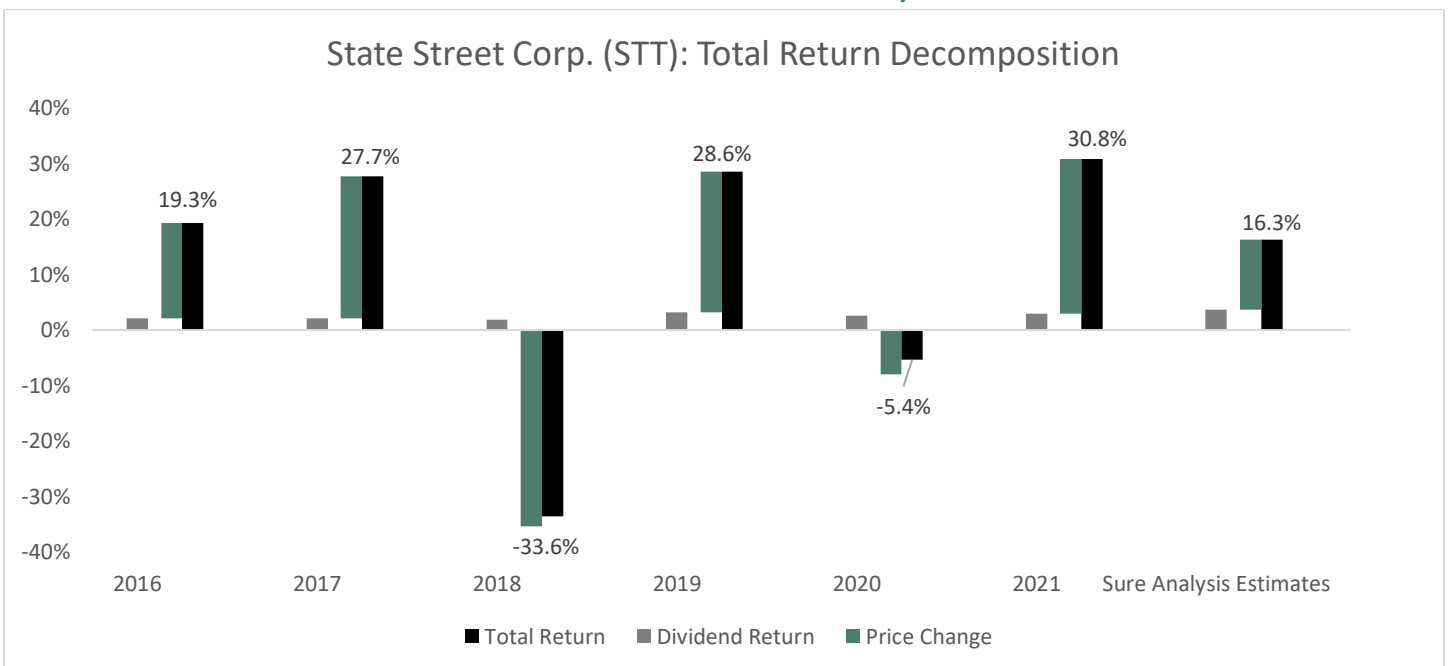
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	23%	26%	28%	27%	28%	26%	33%	31%	29%	29%	30%

State Street has a conservative payout ratio with stable earnings and a solid track record. It is one of the market leaders in its industry of asset management and asset servicing. It also benefits from its economies of scale, which pose a formidable barrier to new entrants. However, competition with names like Vanguard, BlackRock, and Bank of New York Mellon, all of which are lowering fees to attract investor funds, limits the growth potential within this space. A recessionary environment may lower profits but would not necessarily endanger the dividend or the firm.

## Final Thoughts & Recommendation

The stock of State Street has shed -25% this year, in tandem with the broad stock market, due to fears that the aggressive interest rate hikes of the Fed in response to 40-year high inflation will cause a recession. We view these headwinds as temporary and view the stock as exceptionally attractive from a long-term point of view. State Street could offer a 16.3% average annual return over the next five years thanks to 7% earnings-per-share growth, a 3.2% starting dividend yield and the potential for a 6.5% annualized valuation tailwind. The stock earns a buy rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# State Street Corp. (STT)

Updated May 27<sup>th</sup>, 2022, by Aristofanis Papadatos

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	8,947	9,079	9,422	9,567	9,407	10,418	11,094	10,698	10,684	11,003
<b>SG&amp;A Exp.</b>	3,837	3,880	4,140	4,357	4,560	4,561	4,983	4,717	4,559	4,554
<b>D&amp;A Exp.</b>	489	675	699	801	929	1,085	1,203	1,337	1,510	---
<b>Net Profit</b>	2,061	2,050	2,022	1,980	2,143	2,156	2,593	2,242	2,420	2,693
<b>Net Margin</b>	23.0%	22.6%	21.5%	20.7%	22.8%	20.7%	23.4%	21.0%	22.7%	24.5%
<b>Free Cash Flow</b>	1,578	-2,412	-988	-2,106	1,677	6,303	9,566	4,960	2,972	---
<b>Income Tax</b>	705	616	415	318	-22	839	508	470	479	478

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets (\$B)</b>	222.6	243.3	274.1	245.2	242.7	238.4	244.6	245.6	314.7	314.6
<b>Cash &amp; Equivalents</b>	53,527	67,654	95,575	76,672	72,381	69,454	76,310	72,325	120,485	109,989
<b>Acc. Receivable</b>	2,481	3,073	2,755	3,364	3,530	3,447	3,511	3,663	3,484	3,278
<b>Goodwill &amp; Int.</b>	8,516	8,396	7,851	7,439	7,564	7,635	9,815	9,586	9,510	9,437
<b>Total Liab (\$B)</b>	201.7	222.9	252.8	224.0	221.5	216.1	219.9	221.2	288.5	287.3
<b>Long-Term Debt</b>	11,225	12,691	13,654	12,917	12,722	12,514	13,995	13,212	17,689	13,603
<b>Total Equity</b>	20,380	19,887	19,367	18,400	18,023	19,121	21,047	21,469	23,729	25,387
<b>D/E Ratio</b>	0.54	0.62	0.64	0.61	0.60	0.56	0.57	0.54	0.68	0.50

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	1.1%	0.9%	0.9%	0.9%
<b>Return on Equity</b>	10.5%	10.2%	10.3%	10.5%	11.8%	11.6%	12.9%	10.5%	10.7%	11.0%
<b>ROIC</b>	6.5%	6.3%	5.9%	5.7%	6.3%	6.3%	7.0%	5.9%	5.9%	6.3%
<b>Shares Out.</b>	481	455	432	414	396	380	376	374	357	358
<b>Revenue/Share</b>	18.60	19.95	21.81	23.13	23.75	27.40	29.47	28.63	29.92	30.74
<b>FCF/Share</b>	3.28	-5.30	-2.29	-5.09	4.23	16.58	25.41	13.27	8.32	---

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.