SEI Investments (SEIC)

Updated July 24th, 2022, by Josh Arnold

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$7.4 B
Fair Value Price:	$67	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	09/11/22[1]
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.3%	**Dividend Payment Date:**	09/23/22
Dividend Yield:	1.5%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $7.4 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. SEI has about $400 billion in assets under management and around $900 billion in assets under administration. The company should produce about $2 billion in revenue this year.

SEI reported second quarter earnings on July 20th, 2022, and results were somewhat mixed. Earnings-per-share came to 81 cents, which was one penny below estimates. Adjusted earnings-per-share declined from 93 cents in the year-ago period. Revenue was $482 million, up 1.3% year-over-year, and about $9 million ahead of expectations. Revenue was up from $476 million last year.

Revenue in the Investment Managers unit rose from $143 million to $156 million, which led the way in terms of top line growth for SEI in Q2. Private Banks revenue was essentially flat.

Total operating income was $116 million, down from $136 million a year ago. Operating expenses were up from $340 million to $366 million, driving down operating income on largely flat revenue.

Assets under management crested $400 billion in Q2, up fractionally year-over-year.

We're now expecting $3.70 in earnings-per-share for this year following somewhat weak Q2 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	$3.81	***$3.70***	***$4.09***
DPS	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	$0.77	***$0.80***	***$1.18***
Shares[2]	172	169	167	164	159	157	159	154	146	138	***130***	***115***

From 2013 to 2019, SEI managed to double its earnings and looking forward, we believe that strong growth can continue. SEI saw higher earnings-per-share in each year since 2011, until the COVID-impacted 2020. We are forecasting 2% earnings-per-share growth over the next five years as we've reduced from 5% on weaker revenue, and higher levels of expense growth. We see SEI achieving this result through continued revenue expansion as more customers adopt its SEI Wealth Platform, and its relatively newer IT services, as well as assets under management and advisement growth. We see mid-single-digit revenue growth as the primary driver of earnings going forward. SEI also buys back stock at low single-digit rates and is seeing margin expansion with its higher revenue, Q2 results notwithstanding. The key is revenue growth as SEI invests heavily in its future, and revenue growth has slowed materially.

SEI's dividend growth has been decent in recent years but it is not a high-income stock at this point. We see dividend growth going forward, but keep in mind that investors own SEI for the earnings growth potential, not for the yield, and that is not going to change anytime soon. Indeed, the payout ratio remains very low and given how much SEI invests in its platform on a regular basis, in addition to share repurchases, we expect the payout ratio to remain fairly constant.

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[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.4	18.4	19.0	24.4	22.6	22.3	20.3	15.8	18.3	16.0	***14.6***	***18.0***
Avg. Yld.	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	1.3%	***1.5%***	***1.6%***

SEI's price-to-earnings multiple is slightly higher than our last report, and it is now trading at 14.6 times this year's earnings, which is well under our estimate of fair value at 18 times earnings. The stock's historical range is fairly narrow at 16 to 22 times earnings. We therefore see a strong tailwind to total returns due to valuation expansion as the stock is quite cheaply valued. The dividend is not a priority for SEI as it continues to spend cash on its products and services to fuel future growth. This is not a stock one owns for the yield, although it now yields about what the S&P 500 does.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	11%	33%	12%	23%	24%	25%	20%	21%	24%	20%	***22%***	***29%***

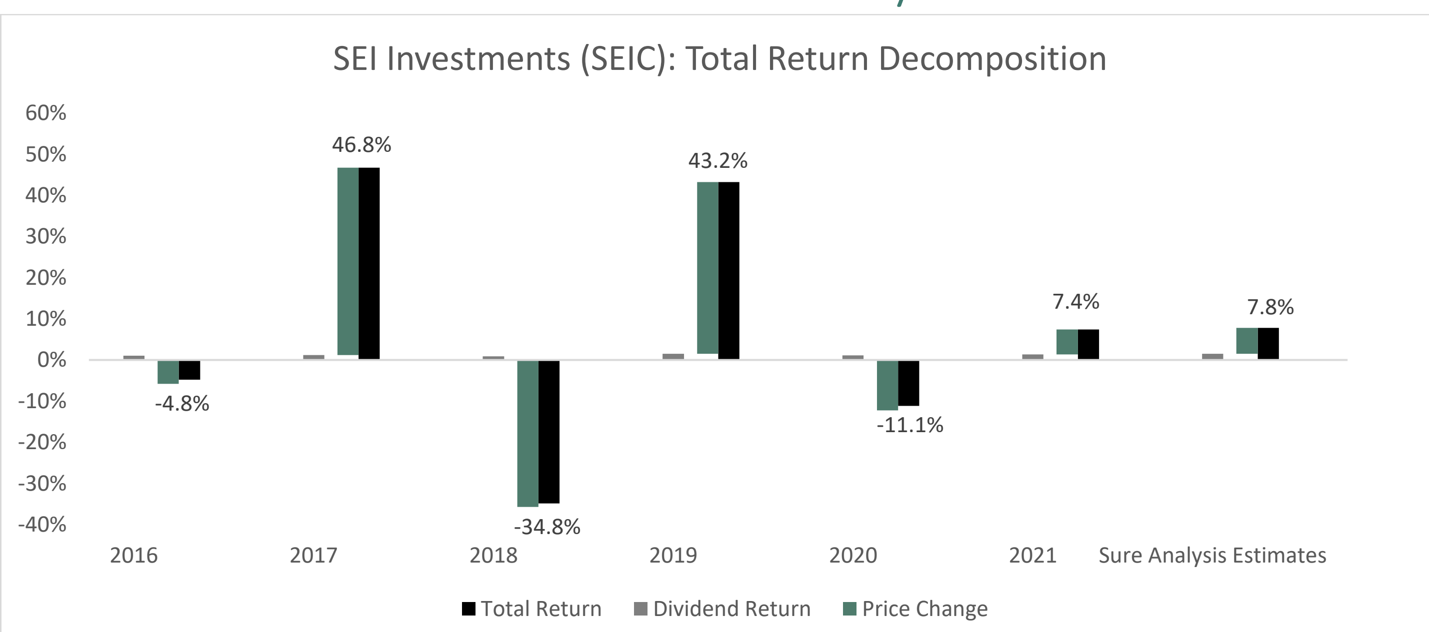
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

SEI's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That does not make it immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEI serves, it is reasonable to expect material weakness during a recession, so that is something investors should consider.

Final Thoughts & Recommendation

Overall, SEI looks like an undervalued stock with modest growth potential. We are forecasting 7.8% total annual returns going forward, comprised of the small current yield and 2% earnings-per-share growth, in addition to a mid-single digit gain from valuation expansion. SEI may become an income stock in the future, but it is still very much in its growth stage, so that is a long way off. We're moving SEI from buy to hold after Q2 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	993	1,126	1,266	1,334	1,402	1,527	1,624	1,650	1,684	1,918
Gross Profit	501	591	683	722	763	840	900	921	946	1,088
Gross Margin	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%	56.7%
SG&A Exp.	233	285	269	298	316	367	380	379	416	442
D&A Exp.	56	57	61	67	72	76	78	81	84	---
Operating Profit	212	248	353	358	376	397	442	460	446	553
Operating Margin	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%	28.8%
Net Profit	207	288	319	332	334	404	506	501	447	547
Net Margin	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%	28.5%
Free Cash Flow	203	295	311	334	352	373	515	468	410	---
Income Tax	121	147	171	169	175	153	108	130	121	147

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,310	1,439	1,543	1,589	1,637	1,853	1,972	2,151	2,167	2,354
Cash & Equivalents	452	578	667	680	696	744	755	841	785	825
Accounts Receivable	78	84	97	95	110	133	126	140	154	501
Goodwill & Int. Ass.	307	313	309	291	296	392	406	389	360	429
Total Liabilities	252	283	295	299	334	377	379	413	427	494
Accounts Payable	11	16	11	5	6	5	11	4	8	10
Long-Term Debt	---	---	---	---	---	30	---	---	---	40
Shareholder's Equity	1,038	1,156	1,248	1,290	1,303	1,477	1,593	1,739	1,740	1,861
LTD/E Ratio	---	---	---	---	---	0.02	---	---	---	0.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%	24.2%
Return on Equity	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%	30.4%
ROIC	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%	30.0%
Shares Out.	172	169	167	164	159	157	159	154	146	138
Revenue/Share	5.64	6.41	7.34	7.87	8.52	9.41	10.07	10.65	11.30	13.39
FCF/Share	1.16	1.68	1.80	1.97	2.14	2.30	3.19	3.02	2.75	---

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