S&P Global (SPGI)

Updated August 13th, 2022, by Josh Arnold

Key Metrics

Current Price:	$392	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$131 B
Fair Value Price:	$299	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/25/22
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	09/12/22
Dividend Yield:	0.9%	**5 Year Price Target**	$482	**Years Of Dividend Growth:**	49
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of $131 billion and revenue of about $12 billion. Through its various segments, it provides credit ratings, benchmarks and indices, analytics, and other data to commodity market participants, capital markets, and automotive markets. The company's early-2022 acquisition of IHS Markit boosted its pro forma revenue by about 50%. S&P Global has paid dividends continuously since 1937 and has increased its payout for 49 consecutive years.

S&P reported second quarter earnings on August 2nd, 2022, and results were weaker than expected. The company posted revenue of $2.99 billion, which was up 49% year-over-year on the IHS Markit acquisition, but missed expectations by $10 million. Adjusted earnings-per-share came to $2.81, which missed expectations by 12 cents, and declined from $3.03 in the year-ago period.

Adjusted operating margin was 47.2% of revenue, which was down 280bps year-over-year. This was primarily attributable to lower ratings transactions revenue and increases in technology expenses. The company noted it remains on track to achieve all of its merger-related synergies with the IHS Markit acquisition. The company said lower debt issuances continue to weigh on results both for revenue and margins. Pro-forma revenue was down from $3.11 billion to $2.97 billion year-over-year.

We now see $11.50 in earnings-per-share for this year following weak results, and note that so long as interest rates remain elevated, revenue growth will be difficult to achieve.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	$3.33	$3.88	$4.53	$5.35	$6.89	$8.50	$9.53	$11.69	$13.70	***$11.50***	***$18.52***
DPS	---	$1.12	$1.20	$1.32	$1.44	$1.64	$2.00	$2.28	$2.68	$3.08	***$3.40***	***$5.99***
Shares[1]	---	271	272	265	258	254	248	246	241	241	***340***	***340***

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. However, this tailwind was quickly unwound in Q1, at least temporarily. 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. This diversification away from ratings has been strengthened by the IHS Markit acquisition.

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 and 2021 results showing a continuation of this trend. We think S&P Global will see a tailwind from its buyback, as well as mid-single-digit revenue gains, and some measure of margin expansion to get to our target of 10% earnings-per-share growth annually in the coming years. That is lower than the company's historical rate of growth but

[1] Share count in millions

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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 recent IHS Markit acquisition. S&P Global has shown it can continue to raise operating margins and boost the top line organically and via acquisitions.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	19.2	21.1	21.8	20.3	20.9	22.6	24.2	27.1	29.4	**34.1**	**26.0**
Avg. Yld.	---	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.8%	**0.9%**	**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 34.1 and thus, is well ahead of our estimate of fair value, due to a strong rally since our last update. We therefore see a sizable headwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	34%	31%	29%	27%	24%	24%	24%	23%	22%	***30%***	***32%***

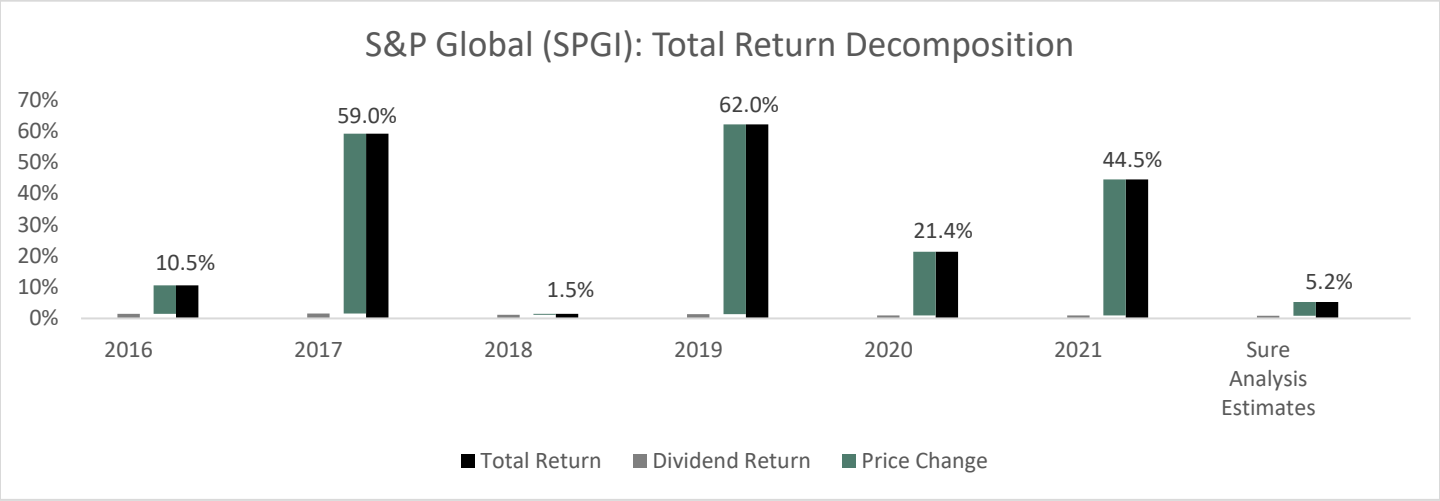
The most important feature of S&P Global is its strong competitive position. It operates in the highly concentrated financial ratings industry where the three well-known rating agencies control over 90% of global financial debt ratings.

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 an 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 10%, we expect 5.2% average annual returns over the next five years after accounting for dividends and a small valuation headwind. S&P Global is a Dividend Aristocrat, but the valuation has deteriorated snice our last update. Shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,270	4,702	5,051	5,313	5,661	6,063	6,258	6,699	7,442	8,297
Gross Profit	2,837	3,138	3,400	3,595	3,888	4,369	4,420	4,723	5,348	6,102
Gross Margin	66.4%	66.7%	67.3%	67.7%	68.7%	72.1%	70.6%	70.5%	71.9%	73.5%
SG&A Exp.	1,578	1,631	3,144	1,532	1,467	1,606	1,424	1,342	1,541	1,714
D&A Exp.	141	137	134	157	181	180	206	204	206	178
Operating Profit	1,170	1,358	122	1,906	2,240	2,583	2,790	3,177	3,601	4,210
Operating Margin	27.4%	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%	50.7%
Net Profit	437	1,376	(115)	1,156	2,106	1,496	1,958	2,123	2,339	3,024
Net Margin	10.2%	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%	36.4%
Free Cash Flow	634	665	1,117	217	1,445	1,893	1,951	2,661	3,491	3,563
Income Tax	388	425	245	547	960	823	560	627	694	901

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7,052	6,061	6,773	8,183	8,669	9,425	9,441	11,348	12,537	15,026
Cash & Equivalents	760	1,542	2,497	1,481	2,392	2,777	1,917	2,866	4,108	6,497
Accounts Receivable	954	949	932	991	1,122	1,319	1,449	1,577	1,593	1,650
Goodwill & Int. Ass.	2,519	2,442	2,391	4,405	4,455	4,377	5,059	4,999	5,087	4,791
Total Liabilities	5,402	3,907	5,424	7,020	6,888	7,307	7,137	8,544	9,185	9,490
Accounts Payable	249	210	191	206	183	195	211	190	233	205
Long-Term Debt	1,256	799	795	3,611	3,564	3,569	3,662	3,948	4,110	4,114
Shareholder's Equity	767	1,301	488	194	650	709	628	479	509	2,032
LTD/E Ratio	1.64	0.61	1.63	18.61	5.48	5.03	5.83	8.24	8.07	2.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.4%	21.0%	-1.8%	15.5%	25.0%	16.5%	20.8%	20.4%	19.6%	21.9%
Return on Equity	38.4%	133.1%	-12.9%	339%	499%	220%	293%	384%	474%	238%
ROIC	15.4%	47.0%	-4.5%	33.4%	41.6%	27.1%	33.6%	33.4%	32.9%	35.3%
Shares Out.	---	271	272	265	258	254	248	246	241	241
Revenue/Share	15.00	16.80	18.60	19.35	21.35	23.42	24.72	27.13	30.74	34.31
FCF/Share	2.23	2.38	4.11	0.79	5.45	7.31	7.71	10.78	14.42	14.74

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

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