



# S&P Global (SPGI)

Updated February 15<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$365	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$117 B
<b>Fair Value Price:</b>	\$324	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	02/24/23
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.4%	<b>Dividend Payment Date:</b>	03/10/23
<b>Dividend Yield:</b>	1.0%	<b>5 Year Price Target</b>	\$521	<b>Years Of Dividend Growth:</b>	50
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

S&P Global is a worldwide provider of financial services and business information with a market capitalization of \$117 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 50 consecutive years, and it is the newest member of the prestigious Dividend Kings.

The company posted fourth quarter and full-year earnings on February 9<sup>th</sup>, 2023, and results were better than expected on both revenue and profits. Adjusted earnings-per-share for the fourth quarter came to \$2.54, which was six cents better than expected. Revenue was up 41% year-over-year to \$2.94 billion, which was \$60 million ahead of estimates.

Market Intelligence revenue soared 83% to \$1.037 billion, which was primarily driven by the inclusion of the recently acquired IHS Markit business, in addition to a 3% increase from legacy businesses.

Ratings revenue was down 29% to \$705 million. Transaction revenue plummeted 51% to \$249 million, which was due to lower debt issuance volumes.

Commodity Insights revenue was up 70% to \$451 million, and up 5% excluding acquisitions.

Expenses were \$2.23 billion, up from \$1.19 billion a year ago. That led to operating profits falling 12% on an adjusted basis to \$1.21 billion.

We see \$12.45 in earnings-per-share on an adjusted basis for this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$11.69	\$13.70	\$11.19	<b>\$12.45</b>	<b>\$20.05</b>
<b>DPS</b>	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	\$3.08	\$3.32	<b>\$3.60</b>	<b>\$6.34</b>
<b>Shares<sup>1</sup></b>	271	272	265	258	254	248	246	241	241	322	<b>320</b>	<b>315</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. However, this tailwind was quickly unwound in Q1 of 2022, 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

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

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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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.2	21.1	21.8	20.3	20.9	22.6	24.2	27.1	29.4	29.9	29.3	26.0
Avg. Yld.	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.8%	1.0%	1.0%	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 29.3 and thus, is ahead of our estimate of fair value. We therefore see a sizable headwind to total returns from the valuation in the coming years.

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

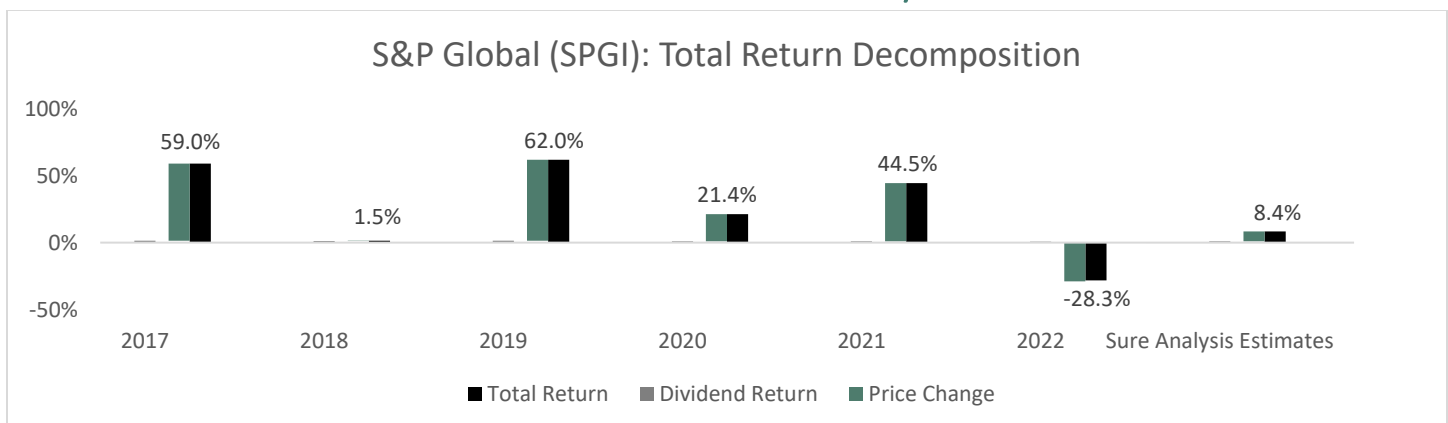
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	31%	29%	27%	24%	24%	24%	23%	22%	30%	29%	32%

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 8.4% average annual returns over the next five years after accounting for the 1.0% yield and a 2.4% valuation headwind. S&P Global is a Dividend King, and the valuation has improved since our last update. Shares continue to earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	4,702	5,051	5,313	5,661	6,063	6,258	6,699	7,442	8,297	11,181
<b>Gross Profit</b>	3,138	3,400	3,595	3,888	4,369	4,420	4,723	5,348	6,102	7,415
<b>Gross Margin</b>	66.7%	67.3%	67.7%	68.7%	72.1%	70.6%	70.5%	71.9%	73.5%	66.3%
<b>SG&amp;A Exp.</b>	1,631	3,144	1,532	1,467	1,606	1,424	1,342	1,541	1,714	3,383
<b>D&amp;A Exp.</b>	137	134	157	181	180	206	204	206	178	1,013
<b>Operating Profit</b>	1,358	122	1,906	2,240	2,583	2,790	3,177	3,601	4,210	3,019
<b>Operating Margin</b>	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%	50.7%	27.0%
<b>Net Profit</b>	1,376	(115)	1,156	2,106	1,496	1,958	2,123	2,339	3,024	3,248
<b>Net Margin</b>	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%	36.4%	29.0%
<b>Free Cash Flow</b>	665	1,117	217	1,445	1,893	1,951	2,661	3,491	3,563	2,514
<b>Income Tax</b>	425	245	547	960	823	560	627	694	901	1,180

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	6,061	6,773	8,183	8,669	9,425	9,441	11,348	12,537	15,026	61,784
<b>Cash &amp; Equivalents</b>	1,542	2,497	1,481	2,392	2,777	1,917	2,866	4,108	6,497	1,286
<b>Accounts Receivable</b>	949	932	991	1,122	1,319	1,449	1,577	1,593	1,650	2,494
<b>Goodwill &amp; Int. Ass.</b>	2,442	2,391	4,405	4,455	4,377	5,059	4,999	5,087	4,791	52,851
<b>Total Liabilities</b>	3,907	5,424	7,020	6,888	7,307	7,137	8,544	9,185	9,490	22,040
<b>Accounts Payable</b>	210	191	206	183	195	211	190	233	205	450
<b>Long-Term Debt</b>	799	795	3,611	3,564	3,569	3,662	3,948	4,110	4,114	10,956
<b>Shareholder's Equity</b>	1,301	488	194	650	709	628	479	509	2,032	36,388
<b>LTD/E Ratio</b>	0.61	1.63	18.61	5.48	5.03	5.83	8.24	8.07	2.02	0.30

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	21.0%	-1.8%	15.5%	25.0%	16.5%	20.8%	20.4%	19.6%	21.9%	8.5%
<b>Return on Equity</b>	133%	-12.9%	339%	499%	220%	293%	384%	474%	238%	16.9%
<b>ROIC</b>	47.0%	-4.5%	33.4%	41.6%	27.1%	33.6%	33.4%	32.9%	35.3%	10.8%
<b>Shares Out.</b>	271	272	265	258	254	248	246	241	241	319
<b>Revenue/Share</b>	16.80	18.60	19.35	21.35	23.42	24.72	27.13	30.74	34.31	35.11
<b>FCF/Share</b>	2.38	4.11	0.79	5.45	7.31	7.71	10.78	14.42	14.74	7.89

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

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