



State Street Corp. (STT)

Published July 15th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	14.6%	Market Cap:	\$22.8 B
Fair Value Price:	\$93	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	9/29/23 ¹
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.5%	Dividend Payment Date:	10/12/23
Dividend Yield:	3.7%	5 Year Price Target	\$119	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	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 13 consecutive years. State Street is one of the largest asset management firms in the world, with \$3.8 trillion of assets under management and \$40 trillion of assets under custody and administration. The company trades with a market capitalization of \$22.8 billion.

In September of 2021, State Street announced the acquisition of Brown Brothers Harriman Investor Services for \$3.5 billion but the two companies agreed to cancel the deal on November 30th, 2022 due to regulatory hurdles.

In mid-July, State Street reported (7/14/23) financial results for the second quarter of fiscal 2023. Fee revenues grew 2% over last year's quarter, primarily thanks to higher stock market levels. Net interest income grew 18% thanks to much higher interest rates and assets under custody or administration rose 4%. As a result, earnings-per-share grew 14%, from \$1.91 to \$2.17, and exceeded the analysts' consensus by \$0.07. State Street has exceeded the analysts' estimates in 17 of the last 18 quarters but the stock plunged -12% on the news, as the market was probably expecting higher earnings per share given multi-year high interest rates and increased stock market levels. Due to somewhat disappointing results, we have lowered our forecast for the earnings-per-share in 2023 from \$7.85 to \$7.45. State Street raised its quarterly dividend by 10% in 2022 and announced a share repurchase program of \$4.5 billion for 2023, enough to reduce its share count by 20%. However, the bank also issues a significant amount of new shares.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.43	\$4.53	\$4.77	\$5.40	\$5.67	\$6.89	\$6.00	\$6.78	\$7.52	\$7.41	\$7.45	\$9.51
DPS	\$1.04	\$1.16	\$1.32	\$1.44	\$1.60	\$1.78	\$1.98	\$2.08	\$2.18	\$2.40	\$2.52	\$3.52
Shares²	455	432	414	396	380	376	374	357	358	364	320	300

State Street has grown its earnings-per-share at a 5.9% average annual rate over the last decade. Going forward, we see the ability for continued growth thanks to the organic growth of equity flows and acquisitions. 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 ETFs. 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.

State Street has announced the repurchase of \$4.5 billion of shares this year. This amount represents 20% of the current share count. Organic earnings growth has been about 2.9% per year, while the share count has contracted by -2.4% per year over the last decade. Thanks to organic growth, share repurchases and inorganic growth through strategic acquisitions, we expect 5% average annual growth of earnings-per-share over the next five years.

¹ Estimated date.

² 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.0	15.4	16.6	12.9	14.7	14.1	11.2	10.4	11.3	10.3	9.1	12.5
Avg. Yld.	1.6%	1.6%	1.8%	2.2%	1.8%	2.0%	3.1%	3.2%	2.6%	3.1%	3.7%	3.0%

State Street is currently trading at 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 high inflation, fears of an upcoming recession and turmoil in the financial sector after the collapse of Silicon Valley Bank and Credit Suisse. 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

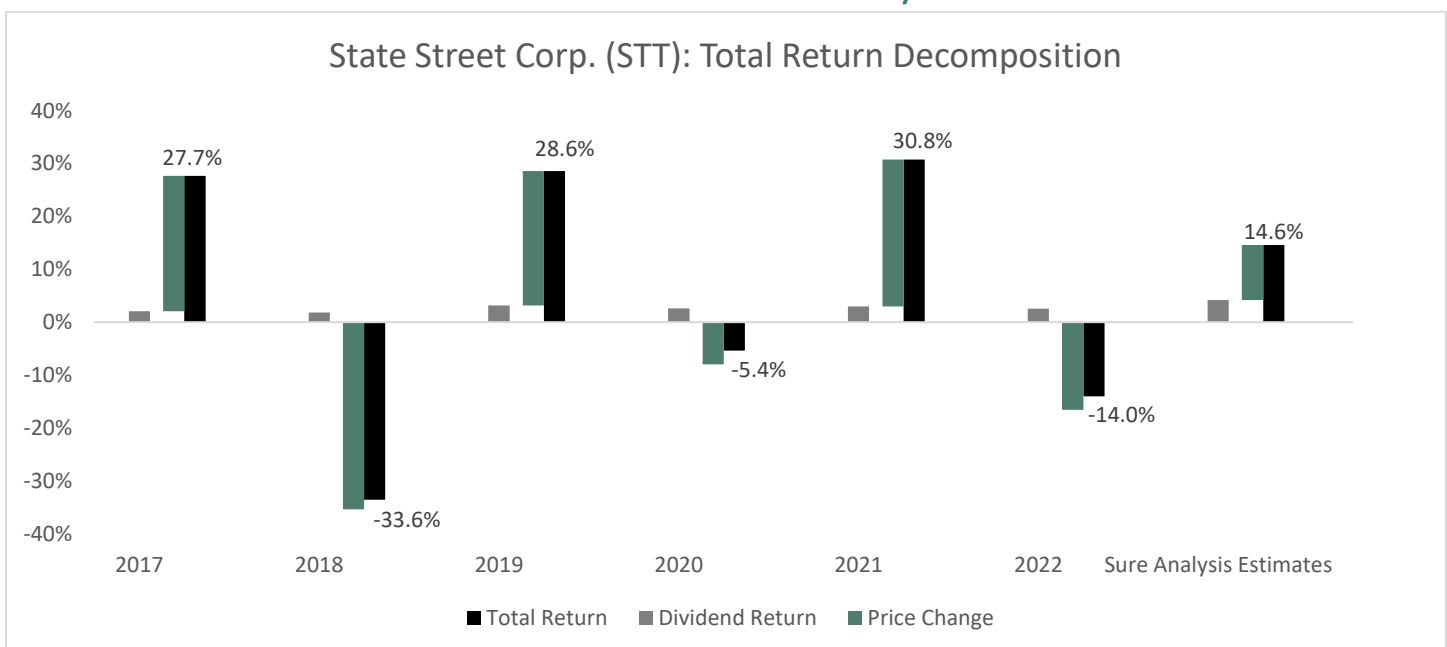
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	26%	28%	27%	28%	26%	33%	31%	29%	32%	34%	37%

State Street has a conservative payout ratio of 34%, 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 it is unlikely to endanger the dividend or the firm.

Final Thoughts & Recommendation

The stock of State Street has incurred a -28% correction off its peak about five months ago, mostly due to fears that the turmoil from the collapse of Silicon Valley Bank and Credit Suisse may affect the bank. We view this headwind as temporary and remain confident in the long-term prospects of the company. State Street could offer a 14.6% average annual return over the next five years thanks to 5.0% earnings-per-share growth, a 3.7% starting dividend yield and the potential for a 6.5% annualized valuation tailwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,079	9,422	9,567	9,407	10,418	11,094	10,698	10,684	11,974	12,148
SG&A Exp.	3,880	4,140	4,357	4,560	4,561	4,983	4,717	4,559	4,639	4,428
D&A Exp.	675	699	801	929	1,085	1,203	1,337	1,510	1,557	1,156
Net Profit	2,050	2,022	1,980	2,143	2,156	2,593	2,242	2,420	2,693	2,774
Net Margin	22.6%	21.5%	20.7%	22.8%	20.7%	23.4%	21.0%	22.7%	22.5%	22.8%
Free Cash Flow	-2,412	-988	-2,106	1,677	6,303	9,566	4,960	2,972	-7,521	11,220
Income Tax	616	415	318	-22	839	508	470	479	478	553

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	243.3	274.1	245.2	242.7	238.4	244.6	245.6	314.7	314.6	301.5
Cash & Equivalents	67,654	95,575	76,672	72,381	69,454	76,310	72,325	120,485	109,989	105,563
Acc. Receivable	3,073	2,755	3,364	3,530	3,447	3,511	3,663	3,484	3,278	3,434
Goodwill & Int.	8,396	7,851	7,439	7,564	7,635	9,815	9,586	9,510	9,437	9,039
Total Liab (\$B)	222.9	252.8	224.0	221.5	216.1	219.9	221.2	288.5	287.3	276.3
Long-Term Debt	12,691	13,654	12,917	12,722	12,514	13,995	13,212	17,689	13,603	17,093
Total Equity	19,887	19,367	18,400	18,023	19,121	21,047	21,469	23,729	25,387	23,215
D/E Ratio	0.62	0.64	0.61	0.60	0.56	0.57	0.54	0.68	0.50	0.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	0.8%	0.8%	0.9%	0.9%	1.1%	0.9%	0.9%	0.9%	0.9%
Return on Equity	10.2%	10.3%	10.5%	11.8%	11.6%	12.9%	10.5%	10.7%	11.0%	11.4%
ROIC	6.3%	5.9%	5.7%	6.3%	6.3%	7.0%	5.9%	5.9%	6.3%	6.7%
Shares Out.	455	432	414	396	380	376	374	357	358	370.1
Revenue/Share	19.95	21.81	23.13	23.75	27.40	29.47	28.63	29.92	30.74	32.82
FCF/Share	-5.30	-2.29	-5.09	4.23	16.58	25.41	13.27	8.32	-21.00	30.32

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

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