



BlackRock Inc. (BLK)

Updated October 18th, 2023 by Kay Ng

Key Metrics

| | | | | | |
|-----------------------------|-------|--|---------|---|----------|
| Current Price: | \$628 | 5 Year CAGR Estimate: | 12.4% | Market Cap: | \$93.7B |
| Fair Value Price: | \$670 | 5 Year Growth Estimate: | 8.5% | Ex-Dividend Date¹: | 12/06/23 |
| % Fair Value: | 94% | 5 Year Valuation Multiple Estimate: | 1.3% | Dividend Payment Date¹: | 12/23/23 |
| Dividend Yield: | 3.2% | 5 Year Price Target | \$1,007 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | B | Retirement Suitability Score: | C | Rating: | Buy |

Overview & Current Events

BlackRock is a large investment and asset management firm. It was founded in 1988 and today has over \$9 trillion of assets under management (“AUM”). BlackRock provides investment management, risk management, and advisory services for institutional and retail clients worldwide. Its products include single and multi-asset class portfolios, equities, fixed income, alternative investments, and money market instruments. Around 80% of BlackRock’s revenue is derived from investment advisory, administration fees, and securities lending, while the remainder is generated from performance fees, distribution fees, and technology services revenue.

On 10/13/23, BlackRock announced its Q3 2023 results. For the quarter, revenue rose 5% to \$4,522 million, primarily due to organic growth, the impact of market movements over the past 12 months on average AUM, and higher technology services revenue. Operating income climbed 7% to \$1,637 million, operating margin expanded to 36.2% (versus 35.4% in Q3 2022), net income climbed 14% to \$1,604 million, and diluted earnings-per-share (“EPS”) rose 15% to \$10.66. Adjusted EPS jumped 14% to \$10.91. Earnings growth reflected a lower effective tax rate, partly offset by lower non-operating income in the quarter. The year-to-date adjusted EPS was \$28.11, up 6.4% year over year. For the quarter, the company experienced only \$3 billion of total net inflows that reflected \$49 billion of net outflows from lower-fee institutional index equity strategies, including \$19 billion from a single international client. This suggests a risk-off mentality in investors who are seemingly moving money from higher-risk equity to lower-risk investments. Notably, in the big picture, BLK’s overall business remains intact -- its Q3 AUM was 14.3% or \$1.1 trillion higher versus a year ago, which includes \$307 billion of net inflows with positive flows across exchange-traded-funds (“ETFs”), active, and cash management. Just like in Q1 and Q2, BLK bought back \$375 million worth of common stock in Q3. Relatively high inflation and interest rates compared to recent history have increased the volatility of financial markets and resulted in a re-rate of financial asset valuations. We maintain our 2023 EPS estimate at \$36.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$16.9 | \$19.3 | \$19.8 | \$19.0 | \$22.5 | \$26.9 | \$28.48 | \$33.82 | \$39.18 | \$35.36 | \$36.00 | \$54.13 |
| DPS | \$6.72 | \$7.72 | \$8.72 | \$9.16 | \$10.00 | \$12.02 | \$13.20 | \$14.52 | \$16.52 | \$19.52 | \$20.00 | \$26.76 |
| Shares¹ | 169 | 167 | 164 | 162 | 160 | 160 | 157 | 155 | 155 | 152 | 150 | 139 |

As you can see in the above table, BlackRock has grown earnings-per-share at a CAGR of 8.5% from 2013 to 2022, even as 2022 was a down year for financial markets. Historically, stock markets tend to go up in the long run. When financial markets do well, they drive higher levels of investment activity. BlackRock helped pioneer the ETF revolution. It operates the iShares brand, which should continue to fuel growth under favorable market conditions. In the long run, the company has attracted new clients and strong fund inflows, at the expense of traditional, higher-priced mutual funds offered by its competitors. 2022’s long-term net fund flows of \$393 billion were decently strong despite falling prices in the stocks and bonds markets. Despite short-term choppiness, we expect BlackRock’s broad offerings to be in demand for the long haul. Currently, we estimate 8.5% annual EPS growth over the next five years, but a slower dividend growth rate (DPS) of 6% over the period so as to reduce the payout ratio.

¹ Projected dividend dates; Shares 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 | 16.0 | 16.6 | 17.5 | 18.3 | 18.7 | 18.3 | 16.4 | 18.1 | 23.3 | 18.5 | 17.4 | 18.6 |
| Avg. Yld. | 2.5% | 2.4% | 2.5% | 2.6% | 2.4% | 2.4% | 2.8% | 2.6% | 1.9% | 2.8% | 3.2% | 2.7% |

BlackRock shares currently trade for a price-to-earnings ratio of 17.4 based on our expected EPS for 2023. From 2018-2022, BlackRock shares traded for an average price-to-earnings ratio of 18.9. And from 2013-2022, it traded at a P/E of 18.2. We estimate a fair price-to-earnings ratio of 18.6 for the quality shares with quality earnings. BlackRock shares appear to be fairly priced for an environment with talks of a potential upcoming recession by 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

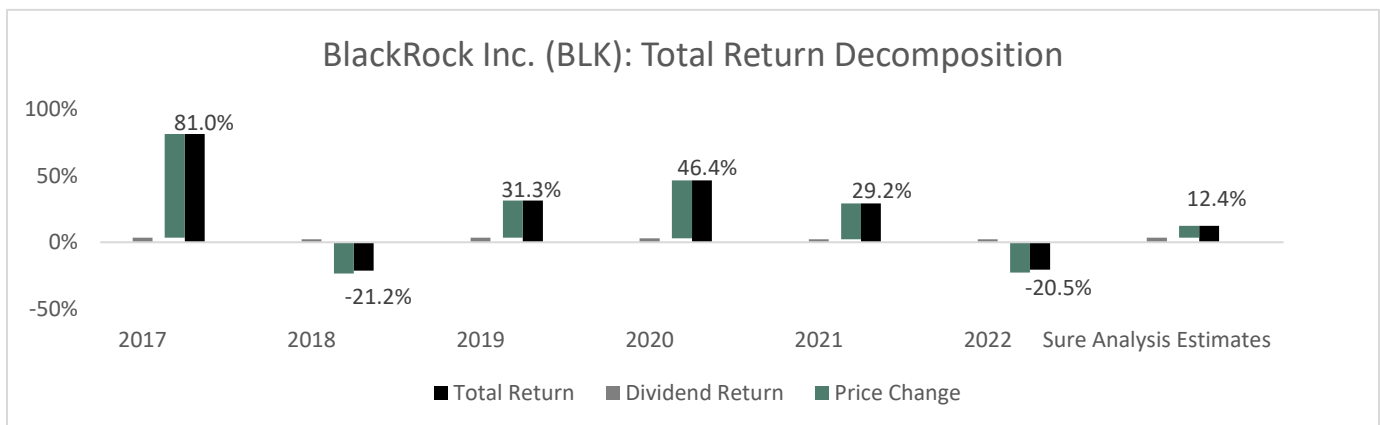
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 40% | 40% | 44% | 48% | 44% | 45% | 46% | 43% | 42% | 55% | 56% | 49% |

BlackRock has a strong business model. During the last recession, it remained highly profitable and continued to pay dividends. It supports a safe dividend with room for continued dividend hikes. The company generates more than enough cash flow to satisfy its debt obligations and reward shareholders with dividends. Its five-year dividend growth rate is 14.3%, but its last dividend increase was 2.5%. The payout ratio of in the 50% range means the current dividend remains sustainable. We estimate a DPS growth rate of 6% to target a payout ratio that better aligns with its historical levels. When the financial markets have a better outlook again, we would raise estimates then. The main competitive advantage for BlackRock is its size, which is powerful when combined with a leading brand in the investment management industry. Many of its products, such as the iShares line of ETFs, are very popular for their low fees. That said, the company would likely suffer during a recession. Typically, economic downturns are accompanied by falling equity markets, which could lead to greater fund outflows. The upcoming recession could negatively impact BlackRock's bottom line. With that said, the dividend should be safe thanks to Blackrock's sustainable payout ratio. The company paid steady or rising dividends through the last recession.

Final Thoughts & Recommendation

BlackRock is a high-quality company with a leading position in the industry. The stock trades at a fair valuation today. We expect total annual returns of 12.4% coming from a yield of 3.2%, 8.5% earnings growth, and 1.3% valuation expansion. Therefore, we think BlackRock is currently a "buy", especially on any dips.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 10180 | 11081 | 11401 | 12261 | 13600 | 14198 | 14539 | 16205 | 19374 | 17873 |
| Gross Profit | 5558 | 6084 | 6172 | 6018 | 6789 | 7205 | 7406 | 8266 | 9818 | 8787 |
| Gross Margin | 54.6% | 54.9% | 54.1% | 49.1% | 49.9% | 50.7% | 50.9% | 51.0% | 50.7% | 49.2% |
| SG&A Exp. | 1385 | 1367 | 1356 | 1286 | 1433 | 1638 | 1758 | 1847 | 2183 | 2147 |
| D&A Exp. | 291 | 278 | 295 | 263 | 240 | 220 | 296 | 358 | 415 | |
| Operating Profit | 3981 | 4524 | 4664 | 4633 | 5267 | 5517 | 5551 | 6313 | 7488 | 6489 |
| Operating Margin | 39.1% | 40.8% | 40.9% | 37.8% | 38.7% | 38.9% | 38.2% | 39.0% | 38.6% | 36.3% |
| Net Profit | 2932 | 3294 | 3345 | 3168 | 4952 | 4305 | 4476 | 4932 | 5901 | 5178 |
| Net Margin | 28.8% | 29.7% | 29.3% | 25.8% | 36.4% | 30.3% | 30.8% | 30.4% | 30.5% | 29.0% |
| Free Cash Flow | 3548 | 3021 | 2783 | 2154 | 3795 | 2871 | 2630 | 3549 | 4603 | |
| Income Tax | 1022 | 1131 | 1250 | 1289 | 270 | 1076 | 1261 | 1238 | 1968 | 1296 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 200451 | 219873 | 239792 | 225261 | 220177 | 220241 | 159573 | 168622 | 176982 | 152648 |
| Cash & Equivalents | 4903 | 4551 | 6001 | 6231 | 6175 | 7038 | 6488 | 4829 | 8664 | 9323 |
| Accounts Receivable | 2250 | 2247 | 2120 | 2237 | 2115 | 2699 | 2657 | 3179 | 3535 | 3789 |
| Inventories | | | | | | | | | | |
| Goodwill & Int. Ass. | 30312 | 30481 | 30305 | 30495 | 30481 | 30609 | 31365 | 32931 | 32814 | 33804 |
| Total Liabilities | 174834 | 193203 | 212272 | 196217 | 190833 | 187977 | 126033 | 133693 | 139326 | 113755 |
| Accounts Payable | | | | | | | | | | |
| Long-Term Debt | 8189 | 7308 | 8311 | 4930 | 4915 | 5014 | 4979 | 4955 | 7264 | 7446 |
| Shareholder's Equity | 25403 | 26460 | 27366 | 28503 | 29098 | 31798 | 32374 | 33547 | 35283 | 37693 |
| D/E Ratio | 0.32 | 0.28 | 0.30 | 0.17 | 0.17 | 0.16 | 0.15 | 0.15 | 0.21 | 0.20 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Return on Assets | 1.3% | 1.4% | 1.4% | 1.4% | 1.4% | 2.2% | 2.3% | 2.7% | 2.9% | 3.6% |
| Return on Equity | 9.7% | 11.3% | 12.2% | 12.0% | 11.0% | 16.3% | 13.4% | 13.6% | 14.3% | 16.2% |
| ROIC | 7.5% | 8.7% | 9.4% | 9.6% | 9.3% | 13.8% | 11.4% | 11.4% | 11.6% | 12.9% |
| Shares Out. | 178.7 | 174.5 | 171.8 | 169.7 | 167.2 | 165.1 | 162.6 | 158.1 | 155.5 | 155.0 |
| Revenue/Share | 52.24 | 58.33 | 64.50 | 67.18 | 73.31 | 82.39 | 87.32 | 91.97 | 104.24 | 124.97 |
| FCF/Share | 11.69 | 20.33 | 17.58 | 16.40 | 12.88 | 22.99 | 17.66 | 16.64 | 22.83 | 29.69 |

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

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