



S&P Global (SPGI)

Updated November 5th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$383	5 Year CAGR Estimate:	7.5%	Market Cap:	\$121 B
Fair Value Price:	\$326	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/27/23
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	12/12/23
Dividend Yield:	0.9%	5 Year Price Target	\$526	Years Of Dividend Growth:	50
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 \$121 billion and revenue of over \$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.

S&P Global posted third quarter earnings on November 2nd, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$3.21, which was 17 cents ahead of expectations. Revenue was up almost 8% year-over-year to \$3.08 billion, which was \$50 million ahead of estimates. The company also noted it was starting a new \$1.3 billion accelerated share repurchase program, worth about 1% of the current float.

Expenses were \$2.02 billion, down from \$2.08 billion, and roughly flat year-over-year. Adjusted operating profit was \$1.47 billion, up from \$1.44 billion in Q2, and up from \$1.32 billion a year ago.

Guidance was narrowed from the prior range of \$12.35 to \$12.55 in adjusted earnings-per-share to a new range of \$12.50 to \$12.60; we've left our estimate unchanged at \$12.55 given it's now in the middle of the updated guidance range for this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.33	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$11.69	\$13.70	\$11.19	\$12.55	\$20.21
DPS	\$1.12	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	\$3.08	\$3.32	\$3.60	\$6.34
Shares¹	271	272	265	258	254	248	246	241	241	322	320	315

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 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

¹ Share count in millions

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Global has a very bright outlook, particularly given IHS Markit acquisition, which has now been lapped. 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	30.5	26.0
Avg. Yld.	1.8%	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.8%	1.0%	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 30.5 and thus is ahead of our estimate of fair value. We therefore continue to see a moderate 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%	31%

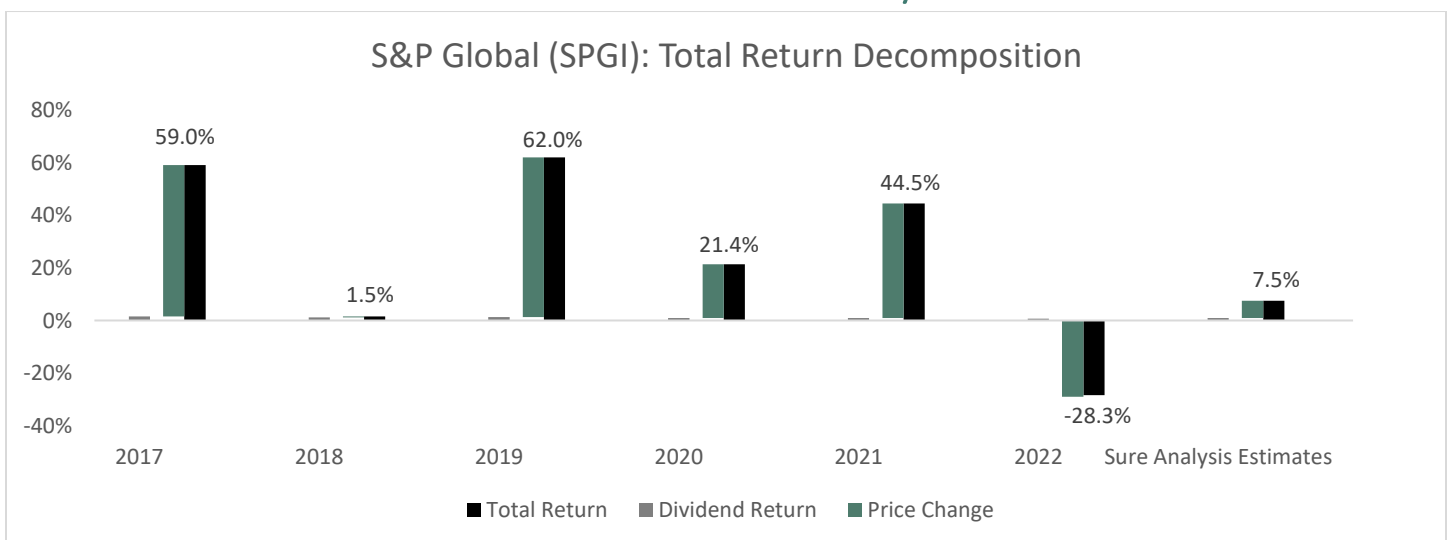
The most important feature of S&P Global is its strong competitive position. It operates in the highly concentrated financial ratings industry where the three well-known rating agencies control over 90% of global financial debt ratings.

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 7.5% average annual returns over the next five years after accounting for the 0.9% yield and a 3.2% valuation headwind. S&P Global is a Dividend King, and shares continue to earn a hold rating after Q3 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,702	5,051	5,313	5,661	6,063	6,258	6,699	7,442	8,297	11,181
Gross Profit	3,138	3,400	3,595	3,888	4,369	4,420	4,723	5,348	6,102	7,415
Gross Margin	66.7%	67.3%	67.7%	68.7%	72.1%	70.6%	70.5%	71.9%	73.5%	66.3%
SG&A Exp.	1,631	3,144	1,532	1,467	1,606	1,424	1,342	1,541	1,714	3,383
D&A Exp.	137	134	157	181	180	206	204	206	178	1,013
Operating Profit	1,358	122	1,906	2,240	2,583	2,790	3,177	3,601	4,210	3,019
Operating Margin	28.9%	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%	50.7%	27.0%
Net Profit	1,376	(115)	1,156	2,106	1,496	1,958	2,123	2,339	3,024	3,248
Net Margin	29.3%	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%	36.4%	29.0%
Free Cash Flow	665	1,117	217	1,445	1,893	1,951	2,661	3,491	3,563	2,514
Income Tax	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
Total Assets	6,061	6,773	8,183	8,669	9,425	9,441	11,348	12,537	15,026	61,784
Cash & Equivalents	1,542	2,497	1,481	2,392	2,777	1,917	2,866	4,108	6,497	1,286
Accounts Receivable	949	932	991	1,122	1,319	1,449	1,577	1,593	1,650	2,494
Goodwill & Int. Ass.	2,442	2,391	4,405	4,455	4,377	5,059	4,999	5,087	4,791	52,851
Total Liabilities	3,907	5,424	7,020	6,888	7,307	7,137	8,544	9,185	9,490	22,040
Accounts Payable	210	191	206	183	195	211	190	233	205	450
Long-Term Debt	799	795	3,611	3,564	3,569	3,662	3,948	4,110	4,114	10,956
Shareholder's Equity	1,301	488	194	650	709	628	479	509	2,032	36,388
LTD/E Ratio	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
Return on Assets	21.0%	-1.8%	15.5%	25.0%	16.5%	20.8%	20.4%	19.6%	21.9%	8.5%
Return on Equity	133%	-12.9%	339%	499%	220%	293%	384%	474%	238%	16.9%
ROIC	47.0%	-4.5%	33.4%	41.6%	27.1%	33.6%	33.4%	32.9%	35.3%	10.8%
Shares Out.	271	272	265	258	254	248	246	241	241	319
Revenue/Share	16.80	18.60	19.35	21.35	23.42	24.72	27.13	30.74	34.31	35.11
FCF/Share	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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