State Street Corp. (STT)

Published April 16th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$22.6 B
Fair Value Price:	$95	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	6/28/24[1]
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Dividend Payment Date:**	7/11/24
Dividend Yield:	3.7%	**5 Year Price Target**	$110	**Years Of Dividend Growth:**	14
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 14 consecutive years. State Street is one of the largest asset management firms in the world, with $4.3 trillion of assets under management and $44 trillion of assets under custody and administration. The company trades with a market capitalization of $22.6 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-April, State Street reported (4/12/24) financial results for the first quarter of fiscal 2024. Net interest income dipped -7% due to a decrease in non-interest deposits but fee revenues grew 4% over last year's quarter. Moreover, assets under custody or administration and assets under management grew 17% and 20%, respectively, thanks to higher quarter-end market levels and cash inflows. As a result, earnings-per-share grew 11%, from $1.52 to $1.69, and exceeded the analysts' consensus by $0.19. State Street has exceeded the analysts' estimates in 20 of the last 21 quarters. Thanks to its positive performance and outlook, State Street has raised its dividend by 10% for three consecutive years. Moreover, it has announced a share repurchase program of $5.0 billion with no expiration date, enough to reduce its share count by 22%. However, the bank also issues a significant amount of new shares. We expect slightly lower earnings-per-share of $7.60 this year due to our expectations for somewhat lower net interest margin.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.53	$4.77	$5.40	$5.67	$6.89	$6.00	$6.78	$7.52	$7.41	$7.66	***$7.60***	***$8.81***
DPS	$1.16	$1.32	$1.44	$1.60	$1.78	$1.98	$2.08	$2.18	$2.40	$2.66	***$2.76***	***$3.68***
Shares[2]	432	414	396	380	376	374	357	358	364	310	***290***	***250***

State Street has grown its earnings-per-share at a 6.0% 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 $5.0 billion of shares, with no expiration date. This amount represents 22% of the current share count. Organic earnings growth has been about 2.4% per year, while the share count has contracted by -3.6% per year over the last decade. Due to a somewhat high comparison base formed by almost record earnings-per-share this year, we expect 3% average annual growth of earnings-per-share over the next five years.

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[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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.4	16.6	12.9	14.7	14.1	11.2	10.4	11.3	10.3	9.7	***9.9***	***12.5***
Avg. Yld.	1.6%	1.8%	2.2%	1.8%	2.0%	3.1%	3.2%	2.6%	3.1%	3.6%	***3.7%***	***3.3%***

State Street is currently trading at price-to-earnings ratio of 9.9, which is much lower than its 10-year average of 12.7. The cheap valuation has resulted from high interest rates, a rising cost of deposits 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 4.8% annualized valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

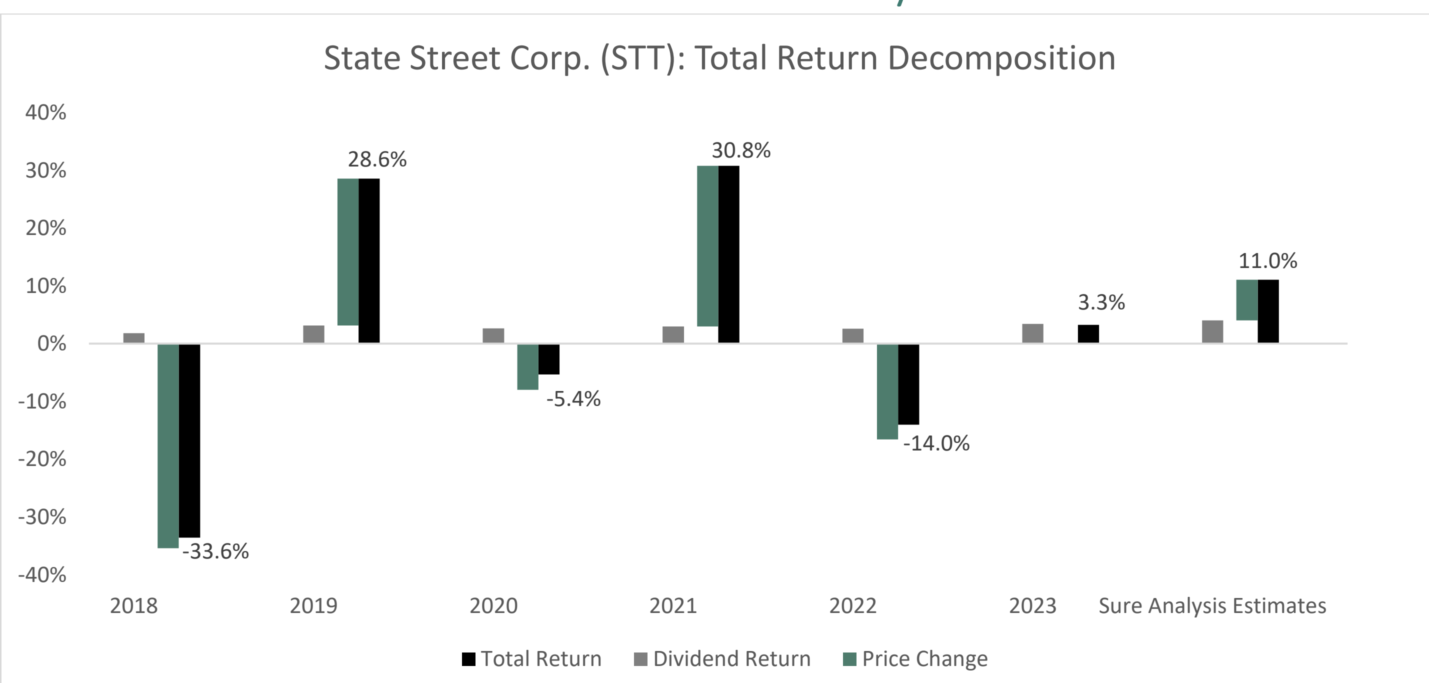
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26%	28%	27%	28%	26%	33%	31%	29%	32%	34%	***36%***	***42%***

State Street has a conservative payout ratio of 36%, 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 underperformed the S&P 500 in the last 12 months (+3% vs. +22%) and remains cheaply valued. We remain confident in the long-term prospects of the company. State Street could offer an 11.0% average annual return over the next five years thanks to 3.0% earnings-per-share growth, a 3.7% starting dividend yield and the potential for a 4.8% annualized valuation tailwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,422	9,567	9,407	10,418	11,094	10,698	10,684	11,974	12,148	11,945
SG&A Exp.	4,140	4,357	4,560	4,561	4,983	4,717	4,559	4,639	4,428	4,704
D&A Exp.	699	801	929	1,085	1,203	1,337	1,510	1,557	1,156	882
Net Profit	2,022	1,980	2,143	2,156	2,593	2,242	2,420	2,693	2,774	1,944
Net Margin	21.5%	20.7%	22.8%	20.7%	23.4%	21.0%	22.7%	22.5%	22.8%	16.3%
Free Cash Flow	-988	-2,106	1,677	6,303	9,566	4,960	2,972	-7,521	11,220	-126
Income Tax	415	318	-22	839	508	470	479	478	553	372

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	274.1	245.2	242.7	238.4	244.6	245.6	314.7	314.6	301.5	297.3
Cash & Equivalents	95,575	76,672	72,381	69,454	76,310	72,325	120,485	109,989	105,563	91,770
Acc. Receivable	2,755	3,364	3,530	3,447	3,511	3,663	3,484	3,278	3,434	4,417
Goodwill & Int.	7,851	7,439	7,564	7,635	9,815	9,586	9,510	9,437	9,039	8,931
Total Liab ($B)	252.8	224.0	221.5	216.1	219.9	221.2	288.5	287.3	276.3	273.5
Long-Term Debt	13,654	12,917	12,722	12,514	13,995	13,212	17,689	13,603	17,093	21,313
Total Equity	19,367	18,400	18,023	19,121	21,047	21,469	23,729	25,387	23,215	21,823
D/E Ratio	0.64	0.61	0.60	0.56	0.57	0.54	0.68	0.50	0.68	0.90

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.8%	0.9%	0.9%	1.1%	0.9%	0.9%	0.9%	0.9%	0.6%
Return on Equity	10.3%	10.5%	11.8%	11.6%	12.9%	10.5%	10.7%	11.0%	11.4%	7.9%
ROIC	5.9%	5.7%	6.3%	6.3%	7.0%	5.9%	5.9%	6.3%	6.7%	4.5%
Shares Out.	432	414	396	380	376	374	357	358	370.1	326.6
Revenue/Share	21.81	23.13	23.75	27.40	29.47	28.63	29.92	30.74	32.82	36.58
FCF/Share	-2.29	-5.09	4.23	16.58	25.41	13.27	8.32	-21.00	30.32	-0.39

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