MSCI Inc. (MSCI)

Published July 24th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$546	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$43 B
Fair Value Price:	$474	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	08/15/2024
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Payment Date:**	08/30/2024
Dividend Yield:	1.2%	**5 Year Price Target**	$835	**Years of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

MSCI Inc. (MSCI), short for Morgan Stanley Capital International, is a global financial information and data solutions provider for the investment community. The company is split into four segments: Index, Analytics, ESG and Climate, and All Other – Private Assets. Virtually all (97%) of the company's revenue are recurring. Furthermore, it operates globally, with 45% of its most recent quarterly subscription run rate earned in the Americas, 38% in Europe, Middle East, and Africa (EMEA), and the remaining 17% in Asia–Pacific (APAC). MSCI was spun off from morgan Stanley in 2007. It is headquartered in New York, New York, and trades on the NYSE. MSCI is well known for its stock indexes, such as the MSCI Emerging Market Index, MSCI Frontier Markets Index, and MSCI All Country World Index. It serves nearly 7,000 clients in more than 95 countries.

On January 29th, 2024, the company announced a 16% increase to the dividend to $1.60 per share quarterly, which marked the 10th consecutive annual dividend increase.

MSCI reported second quarter 2024 results on July 23rd, 2024, for the period ending June 30th, 2024. For the quarter, operating revenue grew 14% to $708 million. MSCI saw revenues improve across all its segments, with Index, Analytics, ESG and Climate, and All Other – Private Assets rising 10%, 11%, 12%, and 72%, respectively. The company produced adjusted EPS of $3.64 per share, a 12% improvement over the prior-year quarter. The company has been experiencing elevated cancellation levels due to its client organizations closing, funds shutting down, as well as restructuring or downsizing, but the quarterly retention rate improved sequentially from 92.8% in 1Q24 to 94.8% in 2Q24.

For 2024, MSCI forecasts net cash provided by operating activities to be $1.33 billion to $1.38 billion and free cash flow of $1,225 million to $1,285 million.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.43	$2.03	$2.70	$3.31	$5.66	$6.59	$7.12	$8.86	$10.72	$14.39	***$14.80***	***$26.08***
DPS	$0.00	$0.80	$1.00	$1.32	$1.92	$2.52	$2.92	$3.64	$4.58	$5.52	***$6.40***	***$11.28***
Shares[1]	116.7	109.9	96.5	91.9	89.7	85.5	84.5	83.5	81.2	79.8	***79.5***	***70.0***

MSCI has produced tremendous growth since it was spun off from Morgan Stanley. More recently, it has generated a 5- and 9-year EPS CAGR of 21.9% and 20.5%, respectively.

MSCI's industry is being reshaped by secular trends, including portfolio indexation and customization, private assets growth, and the global sustainability revolution. MSCI expects to benefit from these developments through its long-term growth strategy, which includes acquisitions. Due primarily to recent acquisitions, MSCI's headcount grew 22% in the last one year, up to 6,059 employees. Furthermore, 69% of its workforce is located in emerging markets, with the remaining 31% in developed markets.

The company implements its triple-crown framework to determine its capital deployment strategy and aims to generate low double digit revenue growth over the long-term, and achieve an adjusted EBITDA margin percent in the high 50s.

[1] In millions

Share repurchases are also likely to contribute to the bottom line. In fact, MSCI has repurchased $6 billion of its own stock since 2012.

Going forward, growth becomes more difficult as the company becomes larger, but we believe MSCI still has a long runway of double-digit EPS growth. We expect that MSCI could increase its EPS by 12% annually through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.6	35.2	29.2	38.1	26.4	39.2	62.7	70.4	43.4	39.3	***36.9***	***32.0***
Avg. Yld.	0.4%	1.1%	1.3%	1.0%	1.3%	1.0%	0.7%	0.6%	1.0%	1.0%	***1.2%***	***1.4%***

MSCI has traded at a high multiple in its recent past. Over the last ten and five years, MSCI has averaged a PE ratio of 40.4 and 51.0, respectively. This is a high valuation, thus MSCI can be regarded as an expensive stock. However, MSCI has produced an impressive EPS growth track record, which is likely to moderate somewhat going forward. Currently, MSCI's PE ratio of 36.9 is above our fair value estimate of 32.0. The dividend is likely to grow at a strong rate, but the stock price is expected to keep up with this, resulting in a dividend yield of ~1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	0%	39%	37%	40%	34%	38%	41%	41%	43%	38%	***43%***	***43%***

MSCI's primary competitive advantage is its research and reputation in the investment community. It boasts an in-house team comprising of over 150 researchers who innovate and differentiate its product offerings and risk models. Its MSCI indexes have become the leaders in benchmarking for many different markets.

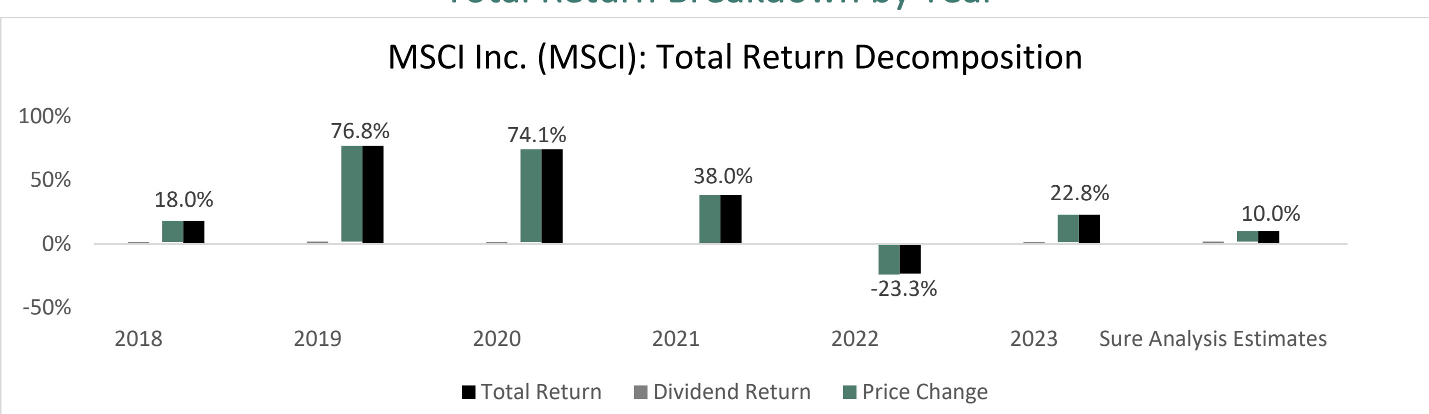
MSCI aims to maintain a total debt to adjusted EBITDA ratio of 3.0X to 3.5X. As of June 30th, 2024, the company had total debt of $4.5 billion and a leverage ratio of 2.8X, below its target. Furthermore, MSCI has no debt maturing until 2029. The company has received a Baa3 credit rating from Moody's, and BBB- from S&P and Fitch.

MSCI's business has downside protection, as nearly all of its revenue is derived from subscriptions, which its clients must continuously pay. For many of these businesses, MSCI's products are key to success. The pandemic did not pose a negative impact to the business, and the company continued earning record profits during that time.

Final Thoughts & Recommendation

We are forecasting total annual returns for MSCI of 10.0%, stemming from 12% EPS growth, and the 1.2% dividend yield, partly offset by -2.8% PE multiple contraction. MSCI has produced incredible returns over the last decade, and the stock appears overvalued currently. Nevertheless, strong total returns has us rating this stock as a buy.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	997	1,075	1,151	1,274	1,434	1,558	1,695	2,044	2,249	2,529
Gross Profit	720	807	899	1,000	1,147	1,263	1,404	1,685	1,844	2,082
D&A Exp.	75	78	81	80	86	102	111	134	142	159
Operating Profit	337	404	488	580	687	756	885	1,089	1,208	1,385
Op. Margin	33.8%	37.6%	42.4%	45.5%	47.9%	48.5%	52.2%	53.3%	53.7%	54.8%
Net Profit	284	224	261	304	508	564	602	726	871	1,149
Net Margin	28.5%	20.8%	22.7%	23.9%	35.4%	36.2%	35.5%	35.5%	38.7%	45.4%
Free Cash Flow	255	272	400	355	564	656	760	883	1,022	1,145
Income Tax	109	120	125	163	122	40	84	132	173	220

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,883	3,147	3,083	3,276	3,388	4,204	4,199	5,507	4,998	5,518
Cash & Equivalents	509	778	792	890	904	1,507	1,301	1,421	993	458
Acc. Receivable	179	208	222	328	473	499	559	665	663	840
Goodwill & Int.	1,999	1,957	1,903	1,882	1,827	1,824	1,801	2,830	2,788	3,844
Total Liabilities	1,450	2,246	2,765	2,875	3,554	4,281	4,642	5,670	6,005	6,258
Accounts Payable	3	3	1	2	4	6	14	13	15	10
Long-Term Debt	788	1,579	2,075	2,078	2,576	3,072	3,367	4,161	4,512	4,508
Total Equity	1,433	901	318	401	(166)	(77)	(443)	(163)	(1,008)	(740)
LTD/E Ratio	0.55	1.75	6.53	5.18	(15.47)	(40.04)	(7.60)	(25.46)	(4.48)	(6.09)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.4%	7.4%	8.4%	9.6%	15.2%	14.8%	14.3%	15.0%	16.6%	21.8%
Return on Equity	19.0%	19.2%	42.8%	84.6%	433%					
ROIC	12.4%	9.5%	10.7%	12.5%	20.8%	20.9%	20.3%	21.0%	23.2%	31.6%
Shares Out.	116.7	109.9	96.5	91.9	89.7	85.5	84.5	83.5	81.2	79.8
Revenue/Share	8.54	9.78	11.92	13.86	15.99	18.21	20.06	24.48	27.69	31.67
FCF/Share	2.18	2.48	4.14	3.87	6.29	7.67	8.99	10.58	12.59	14.34

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