



S&P Global (SPGI)

Updated August 18th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$491	5 Year CAGR Estimate:	9.5%	Market Cap:	\$154 B
Fair Value Price:	\$423	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	08/27/24
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	09/11/24
Dividend Yield:	0.7%	5 Year Price Target	\$746	Years Of Dividend Growth:	51
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 \$154 billion and revenue of over \$13 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 51 consecutive years, and it is one of the newest members of the prestigious Dividend Kings.

S&P Global posted second quarter earnings on July 30th, 2024, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$4.04, which was 39 cents better than estimates. Earnings were up from \$3.12 per share in last year's Q2. Revenue soared 14.5% year-over-year to \$3.55 billion, \$140 million better than expected. Management also boosted guidance, and we've raised our estimate accordingly.

Expenses were \$2.11 billion, the same as Q1, and up fractionally from last year's Q2. Given revenue rose sharply, operating profit soared from \$1.44 billion to \$1.81 billion.

Revenue growth was strongest in the Ratings business, which saw revenue rise from \$851 million to \$1.14 billion year-over-year. The Market Intelligence business is still the largest segment, but only just, as revenue rose modestly year-over-year.

We now see \$14.60 in adjusted earnings-per-share for this year after outstanding Q2 results, as well as much better guidance from the management team.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.88	\$4.53	\$5.35	\$6.89	\$8.50	\$9.53	\$11.69	\$13.70	\$11.19	\$12.60	\$14.60	\$25.73
DPS	\$1.20	\$1.32	\$1.44	\$1.64	\$2.00	\$2.28	\$2.68	\$3.08	\$3.32	\$3.60	\$3.64	\$6.41
Shares¹	272	265	258	254	248	246	241	241	322	314	305	280

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. The company saw higher revenue in all of its operating segments in the most recent quarter, a sign this diversification is working nicely.

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 recent results showing a continuation of this trend. We think S&P Global will see a tailwind from its buyback, as

¹ Share count in millions

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well as mid-single-digit revenue gains, and some measure of margin expansion to get to our target of 12% 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 Global has a very bright outlook. S&P Global has shown it can continue to raise operating margins and boost the top line organically and via acquisitions.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.1	21.8	20.3	20.9	22.6	24.2	27.1	29.4	29.9	35.0	33.6	29.0
Avg. Yld.	1.5%	1.3%	1.3%	1.1%	1.0%	1.0%	0.8%	0.8%	1.0%	0.8%	0.7%	0.9%

S&P Global's 5-year average price-to-earnings ratio is 29.1, and we're assessing fair value at 29 times earnings given the sustained, outstanding performances the company has produced. The stock is currently trading at a price-to-earnings ratio of 33.6 and thus is ahead of our estimate of fair value. We therefore continue to see a headwind to total returns from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

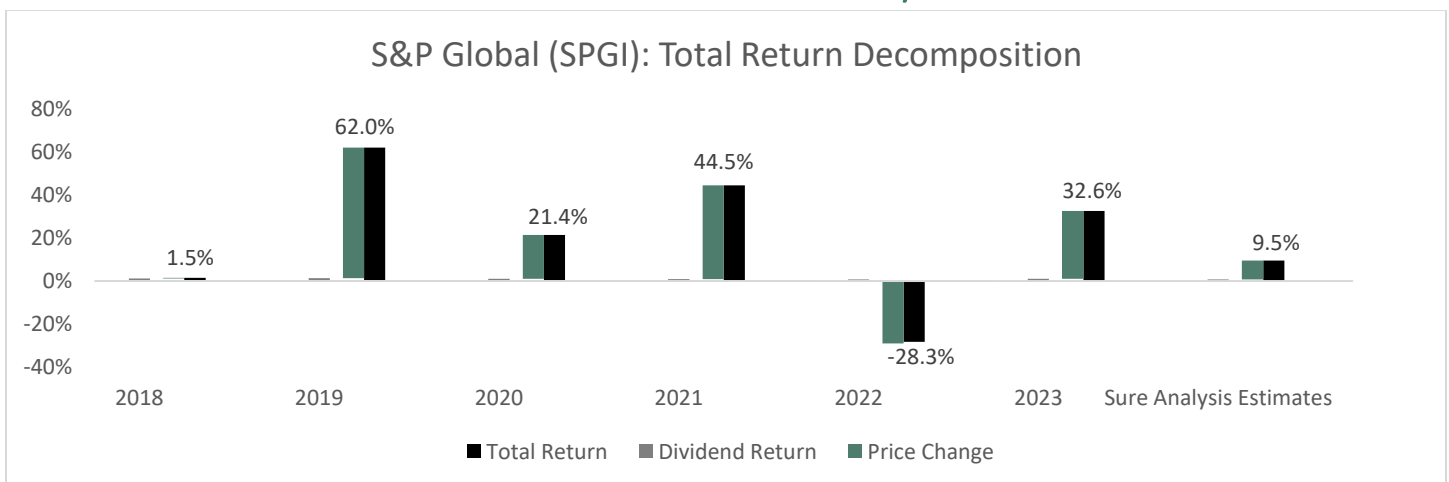
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	29%	27%	24%	24%	24%	23%	22%	30%	29%	25%	25%

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 12%, we expect 9.5% average annual returns over the next five years after accounting for the 0.7% yield and a 2.9% valuation headwind. S&P Global is a Dividend King, but we're moving shares to hold from buy given the much higher valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,051	5,313	5,661	6,063	6,258	6,699	7,442	8,297	11,181	12,497
Gross Profit	3,400	3,595	3,888	4,369	4,420	4,723	5,348	6,102	7,415	8,356
Gross Margin	67.3%	67.7%	68.7%	72.1%	70.6%	70.5%	71.9%	73.5%	66.3%	66.9%
SG&A Exp.	3,144	1,532	1,467	1,606	1,424	1,342	1,541	1,714	3,383	3,159
D&A Exp.	134	157	181	180	206	204	206	178	1,013	1,143
Operating Profit	122	1,906	2,240	2,583	2,790	3,177	3,601	4,210	3,019	4,054
Operating Margin	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%	50.7%	27.0%	32.4%
Net Profit	(115)	1,156	2,106	1,496	1,958	2,123	2,339	3,024	3,248	2,626
Net Margin	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%	36.4%	29.0%	21.0%
Free Cash Flow	1,117	217	1,445	1,893	1,951	2,661	3,491	3,563	2,514	3,567
Income Tax	245	547	960	823	560	627	694	901	1,180	778

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,773	8,183	8,669	9,425	9,441	11,348	12,537	15,026	61,784	60,589
Cash & Equivalents	2,497	1,481	2,392	2,777	1,917	2,866	4,108	6,497	1,286	1,290
Accounts Receivable	932	991	1,122	1,319	1,449	1,577	1,593	1,650	2,494	2,826
Goodwill & Int. Ass.	2,391	4,405	4,455	4,377	5,059	4,999	5,087	4,791	52,851	52,248
Total Liabilities	5,424	7,020	6,888	7,307	7,137	8,544	9,185	9,490	22,040	22,489
Accounts Payable	191	206	183	195	211	190	233	205	450	557
Long-Term Debt	795	3,611	3,564	3,569	3,662	3,948	4,110	4,114	10,956	11,459
Shareholder's Equity	488	194	650	709	628	479	509	2,032	36,388	34,200
LTD/E Ratio	1.63	18.61	5.48	5.03	5.83	8.24	8.07	2.02	0.30	0.34

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-1.8%	15.5%	25.0%	16.5%	20.8%	20.4%	19.6%	21.9%	8.5%	4.3%
Return on Equity	-12.9%	339%	499%	220%	293%	384%	474%	238%	16.9%	6.7%
ROIC	-4.5%	33.4%	41.6%	27.1%	33.6%	33.4%	32.9%	35.3%	10.8%	5.2%
Shares Out.	272	265	258	254	248	246	241	241	319	319
Revenue/Share	18.60	19.35	21.35	23.42	24.72	27.13	30.74	34.31	35.11	39.19
FCF/Share	4.11	0.79	5.45	7.31	7.71	10.78	14.42	14.74	7.89	11.19

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

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