SEI Investments (SEIC)

Updated October 25th, 2024, by Josh Arnold

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$9.6 B
Fair Value Price:	$78	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/27/24[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	01/23/25
Dividend Yield:	1.2%	**5 Year Price Target**	$115	**Years Of Dividend Growth:**	33
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $9.6 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. SEI has about $1.6 trillion combined in assets under administration and management. The company should produce about $2 billion in revenue this year.

SEI posted third quarter earnings on October 23rd, 2024, and results were better than expected. The company posted $1.19 in earnings-per-share, which was 12 cents ahead of expectations. Revenue was up 13% year-over-year to $537 million, which was $3.3 million better than estimates. Management noted each business segment posted positive growth during the quarter.

Private Banks revenue was up 16%, as backlog items were implemented, new clients converted to SEI Wealth Platform, and growth in volume of assets.

Investment Advisors revenue was up 15%, driven by a positive contribution from the FDIC program, which contributed almost $11 million in revenue.

Assets under administration rose 2%, while assets under management rose 4% relative to the second quarter. Year-over-year, those numbers were +15% and +16%, respectively.

Average assets under administration increased by 2%, and average assets under management increased by 4%, relative to the second-quarter 2024. On a year-over-year basis, average AUA and AUM increased by 15% and 16%, respectively.

Management boosted its buyback authorization by $400 million, bringing the total authorization to $429 million, or about 4% of the market cap.

We estimate $4.35 in adjusted earnings-per-share for this year after good Q3 results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	$3.81	$3.81	$3.51	***$4.35***	***$6.39***
DPS	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	$0.77	$0.83	$0.89	***$0.92***	***$1.35***
Shares[2]	167	164	159	157	159	154	146	138	134	131	***128***	***115***

From 2013 to 2019, SEI managed to double its earnings, and looking forward, we believe that strong growth can continue. SEI saw higher earnings-per-share in each year since 2011, until the COVID-impacted 2020. We are forecasting 8% earnings-per-share growth over the next five years. We see SEI achieving this result through continued revenue expansion as more customers adopt its SEI Wealth Platform, and its relatively newer IT services, as well as assets under management and advisement growth. We see mid-single-digit revenue growth as the primary driver of earnings going forward. SEI also buys back stock at low single-digit rates and is seeing margin expansion with its higher revenue. The key is revenue growth as SEI invests heavily in its future, and revenue growth has slowed.

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[1] Estimated date

[2] Share count in millions

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SEI's dividend growth has been decent in recent years but it is not a high-income stock at this point. We see dividend growth going forward, but keep in mind that investors own SEI for the earnings growth potential, not for the yield, and that is not going to change anytime soon. Indeed, the payout ratio remains very low and given how much SEI invests in its platform on a regular basis, in addition to share repurchases, we expect the payout ratio to remain fairly constant.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.0	24.4	22.6	22.3	20.3	15.8	18.3	16.0	15.3	18.1	***17.0***	***18.0***
Avg. Yld.	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	1.3%	1.4%	1.4%	***1.2%***	***1.2%***

SEI's price-to-earnings multiple is higher than our last report, and it is now trading at 17 times this year's earnings, which is under our estimate of fair value at 18 times earnings. The stock's historical range is fairly narrow at 16 to 22 times earnings. We therefore see a small tailwind to total returns due to valuation expansion as the stock is trading below fair value. The dividend is not a priority for SEI as it continues to spend cash on its products and services to fuel future growth. This is not a stock one owns for the yield, and it yields right around that of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	12%	23%	24%	25%	20%	21%	24%	20%	22%	25%	***21%***	***21%***

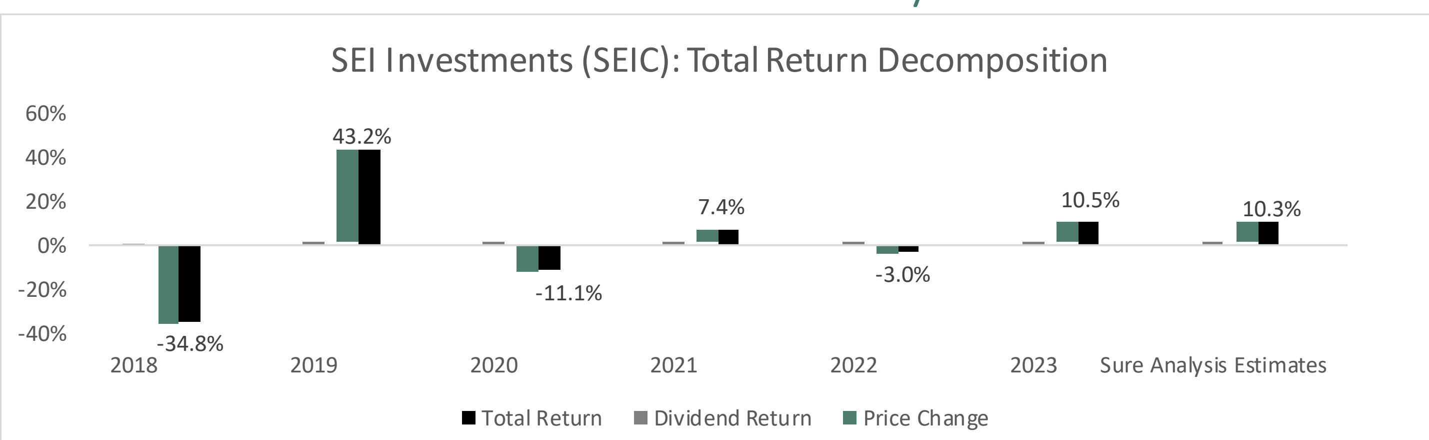
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

SEI's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That does not make it immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEI serves, it is reasonable to expect material weakness during a recession, so that is something investors should consider. In addition, weak equity market performance is another headwind that comes up from time to time.

Final Thoughts & Recommendation

Overall, SEI looks like an undervalued stock with good growth potential. We are forecasting 10.3% total annual returns going forward, comprised of the 1.2% current yield and 8% earnings-per-share growth, in addition to a gain from valuation expansion. SEI may become an income stock in the future, but it is still very much in its growth stage, so that is a long way off. We're reiterating the stock at a buy after Q3 results. So long as assets in custody rise, SEI is a strong growth stock to consider owning.

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	1,266	1,334	1,402	1,527	1,624	1,650	1,684	1,918	1,991	1,920
Gross Profit	683	722	763	840	900	921	946	1,088	1,045	984
Gross Margin	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%	56.7%	52.5%	51.3%
SG&A Exp.	269	298	316	367	380	379	416	442	482	263
D&A Exp.	61	67	72	76	78	81	84	93	88	74
Operating Profit	353	358	376	397	442	460	446	553	476	425
Operating Margin	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%	28.8%	24.2%	22.1%
Net Profit	319	332	334	404	506	501	447	547	475	462
Net Margin	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%	28.5%	23.9%	24.1%
Free Cash Flow	311	334	352	373	515	468	410	581	492	388
Income Tax	171	169	175	153	108	130	121	147	134	132

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,543	1,589	1,637	1,853	1,972	2,151	2,167	2,354	2,384	2,520
Cash & Equivalents	667	680	696	744	755	841	785	825	853	835
Accounts Receivable	97	95	110	133	126	140	154	501	519	557
Goodwill & Int. Ass.	309	291	296	392	406	389	360	429	408	460
Total Liabilities	295	299	334	377	379	413	427	494	430	388
Accounts Payable	11	5	6	5	11	4	8	10	13	11
Long-Term Debt	---	---	---	30	---	---	---	40	---	---
Shareholder's Equity	1,248	1,290	1,303	1,477	1,593	1,739	1,740	1,861	1,954	2,132
LTD/E Ratio	---	---	---	0.02	---	---	---	0.02	---	---

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%	24.2%	20.1%	18.9%
Return on Equity	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%	30.4%	24.9%	22.6%
ROIC	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%	30.0%	24.7%	22.6%
Shares Out.	167	164	159	157	159	154	146	138	137	134
Revenue/Share	7.34	7.87	8.52	9.41	10.07	10.65	11.30	13.39	14.49	14.36
FCF/Share	1.80	1.97	2.14	2.30	3.19	3.02	2.75	4.05	3.58	2.90

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