Stifel Financial Corp. (SF)

Published October 11th, 2024, by Kody Kester

Key Metrics

Current Price:	$98	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$10.0B
Fair Value Price:	$88	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	11/29/24
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	12/16/24
Dividend Yield:	1.7%	**5 Year Price Target**	$141	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Tracing its roots back to a partnership founded in 1890, Stifel Financial Corp. is a global wealth management and investment banking company with a rich corporate history. As of August 31st, SF had $489.2 billion in client assets under its management.

The company operates the following three segments:

1. Global Wealth Management: The Global Wealth Management segment's thousands of financial advisors provide clients with financial planning services and insurance and annuity products. The segment also offers asset management services to institutions, private clients, and investment advisers. The Stifel Bancorp business provides retail and commercial banking services to private and corporate clients, including personal loans, commercial real estate loans, and credit cards.
2. Institutional Group: The Institutional Group segment offers research services, investment banking activities like the execution of public offerings and debt placements, and public finance services for various bonds issued by states and cities.
3. Other: The Other segment is comprised of interest income from stock borrowing activities and interest income and gains and losses from held investments.

Over the years, SF has made several acquisitions to better serve clients and grow its business. Last August, the company completed its acquisition of Sierra Pacific Securities, LLC, an algorithmic trading-focused, fixed-income market-making firm. This was done with the vision of expanding its fixed-income sales and trading offerings.

On July 24th, SF shared its financial results for the second quarter ended June 30th. The company's net revenue surged 15.9% over the year-ago period to $1.2 billion during the quarter. This was made possible by double-digit topline growth for asset management revenue from the market rally and investment banking revenue from robust capital markets. SF's non-GAAP diluted EPS soared 33.3% year-over-year to $1.60 in the quarter. That topped the analyst consensus by $0.06 for the quarter. Disciplined cost management helped the company's non-GAAP net profit margin expand by 150 basis points to 14.5% during the quarter. This is how non-GAAP diluted EPS growth handily outpaced net revenue growth in the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.84	$1.64	$1.75	$2.54	$3.52	$4.07	$4.56	$7.08	$5.74	$4.68	***$6.55***	***$10.55***
DPS	-	-	-	$0.13	$0.32	$0.40	$0.45	$0.60	$1.20	$1.44	***$1.68***	***$2.71***
Shares[2]	99.5	100.5	100.0	106.3	106.2	102.5	103.2	104.5	105.4	101.1	***102.5***	***102.5***

Since 2014, SF's non-GAAP diluted EPS has risen by almost 11% annually. In the years to come, we expect similar annual non-GAAP diluted EPS growth of 10%. This is supported by the general macro picture that economic growth leads markets higher over time. That will continue to bolster asset management and investment banking results. SF also

[1] Estimate
[2] Share count is 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.

operates in an industry with room for consolidation so that opens the door to bolt-on acquisitions to drive additional growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	18.4	17.2	19.0	15.7	7.8	9.9	11.1	10.0	10.2	14.8	***14.9***	***13.4***
Avg. Yld.	-	-	-	0.3%	1.2%	1.0%	0.9%	0.9%	2.1%	2.1%	***1.7%***	***1.9%***

In the past 10 years, SF's valuation multiple has ranged from as low as the high single-digits to the high teens. In that time, the average P/E ratio has been 13.4. Moving forward, we believe that this remains a realistic fair value multiple for SF. That's because the company's growth prospects appear to be holding up to justify such a multiple. The current value multiple of 14.9 is moderately above our fair value multiple, so there is currently no margin of safety.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-	-	-	5%	9%	10%	10%	8%	21%	31%	***26%***	***26%***

Operating for 134 years, SF is a trusted player in its industry. Couple that with the results that it delivers, and this has translated into a loyal and expanding client base. That is how SF's non-GAAP diluted EPS has grown at a double-digit annual pace in the last decade.

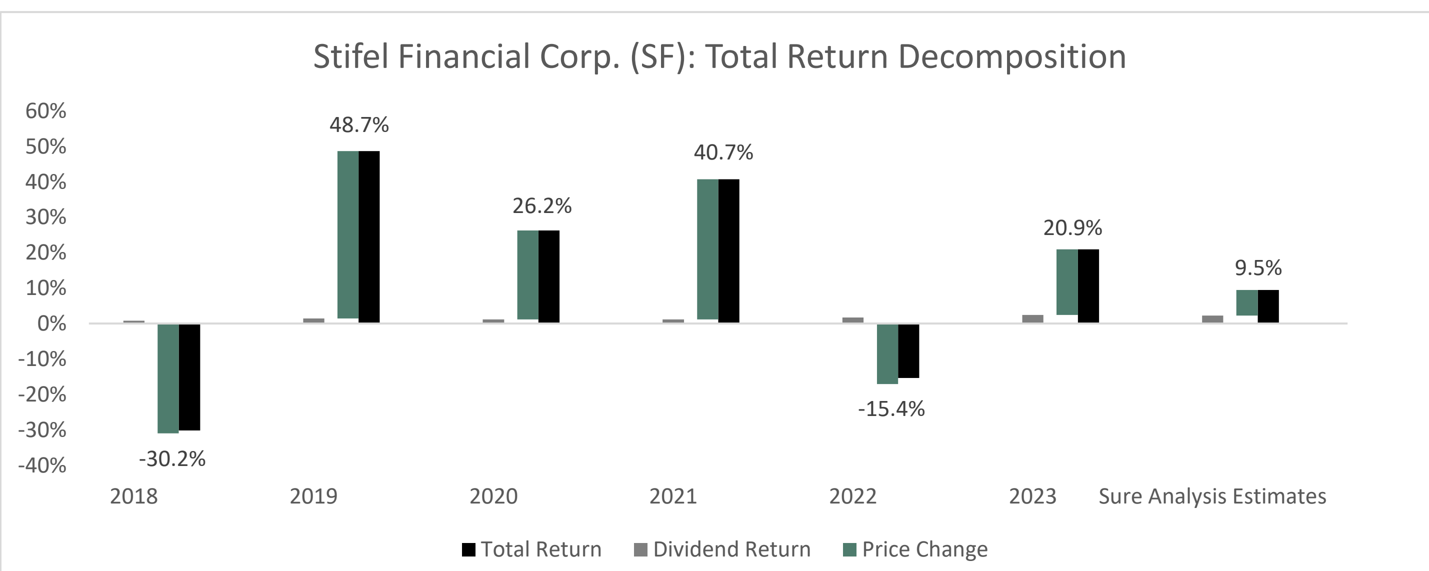
The company is also financially sound. SF's Tier 1 risk-based capital ratio of 17.8% represented a modest improvement over Q2 2023's figure of 17.3%. For context, that's more than quadruple the 4% floor required by regulators. This earns SF respective credit ratings of BBB and BBB+ from S&P and Fitch on stable outlooks.

The company's dividend payout ratio is also low enough to endure a temporary downturn in non-GAAP diluted EPS that happens periodically. That puts SF in a position to extend its seven-year dividend growth streak in the years ahead.

Final Thoughts & Recommendation

SF's 1.7% dividend yield, 10.0% annual non-GAAP diluted EPS prospects, and 2.1% annual valuation multiple downside could produce 9.5% annual total returns through 2029. As it stands, the stock's overvaluation is holding us back from a buy rating. Thus, we're initiating coverage with a hold 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	2,172	2,289	2,531	2,882	2,983	3,293	3,696	4,677	4,334	4,291
SG&A Exp.	1,404	1,569	1,726	1,959	1,771	1,978	2,279	2,820	2,586	2,555
D&A Exp.	42	47	58	45	40	54	60	64	70	81
Net Profit	176	92	82	183	394	448	503	825	662	523
Net Margin	8.1%	4.0%	3.2%	6.3%	13.2%	13.6%	13.6%	17.6%	15.3%	12.2%
Free Cash Flow	224	(332)	(470)	652	421	469	1,588	684	1,075	447
Income Tax	112	49	61	87	140	149	148	242	223	184

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9,518	13,326	19,129	21,384	24,520	24,610	26,604	34,050	37,196	37,727
Cash & Equivalents	690	811	913	696	1,937	1,143	2,279	1,963	2,200	3,362
Accounts Receivable	484	1,599	1,416	1,384	1,201	1,352	937	1,153	924	842
Goodwill & Int. Ass.	850	979	1,079	1,078	1,154	1,356	1,323	1,455	1,457	1,522
Total Liabilities	7,196	10,834	16,391	18,522	21,322	20,940	22,365	29,015	31,868	32,433
Accounts Payable	638	1,787	1,766	1,413	1,614	2,600	2,412	2,364	2,130	2,304
Long-Term Debt	708	1,060	1,740	2,083	1,797	1,327	1,172	1,173	1,175	1,176
Shareholder’s Equity	2,322	2,492	2,588	2,712	3,018	3,305	3,704	4,350	4,643	4,609
LTD/E Ratio	0.30	0.43	0.64	0.73	0.57	0.37	0.28	0.23	0.22	0.22

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	0.8%	0.5%	0.9%	1.7%	1.8%	2.0%	2.7%	1.9%	1.4%
Return on Equity	8.0%	3.8%	3.1%	6.5%	13.0%	13.1%	12.7%	17.8%	12.8%	9.8%
ROIC	6.3%	2.8%	2.0%	3.9%	7.9%	9.0%	9.7%	14.2%	10.4%	8.1%
Shares Out.	99.5	100.5	100.0	106.3	106.2	102.5	103.2	104.5	105.4	101.1
Revenue/Share	18.96	19.43	21.76	23.71	24.45	27.94	32.26	39.46	36.87	37.82
FCF/Share	1.95	(2.81)	(4.04)	5.36	3.45	3.98	13.86	5.77	9.15	3.94

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