Stifel Financial Corp. (SF)

Updated October 25th, 2024, by Kody Kester

Key Metrics

Current Price:	$104	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$10.6B
Fair Value Price:	$89	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	12/02/24
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	12/16/24
Dividend Yield:	1.6%	**5 Year Price Target**	$142	**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 September 30th, SF had $496.3 billion in client assets under 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 October 23rd, SF released its financial results for the third quarter ended September 30th. The company's net revenue climbed 17.2% year over year to $1.2 billion in the quarter. As was the case in our initial report, this was due to a couple of factors. Strength in capital markets and continued gains in financial markets pushed asset management, transactional, and investment banking revenues higher by double-digit rates. SF's non-GAAP diluted EPS soared by 150% over the year-ago period to $1.50. This came up $0.10 short of the analyst consensus, which was because of a $0.10 after-tax provision set aside for legal matters.

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	***$6.60***	***$10.63***
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	***102.3***	***102.3***

Since 2014, SF's non-GAAP diluted EPS has compounded by almost 11% annually. In the years ahead, we still expect similar annual non-GAAP diluted EPS growth of 10%. This is supported by the overall macro argument that economic growth helps markets to move higher over time. That will continue to boost asset management and investment banking results. SF also operates in an industry with room for consolidation, so this gives it flexibility to execute acquisitions to fuel additional growth.

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[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.

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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	***15.7***	***13.4***
Avg. Yld.	-	-	-	0.3%	1.2%	1.0%	0.9%	0.9%	2.1%	2.1%	***1.6%***	***1.9%***

In the last decade, SF's valuation multiple has varied from as low as the high single-digits to the high teens. The average P/E ratio over that time has been 13.4. Moving forward, we remain convinced that this is a sensible fair value multiple for SF. That's because the company's growth prospects appear to be intact to justify such a multiple. The current valuation multiple of 15.7 registers materially above our fair value multiple, so the company is arguably priced to perfection.

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%	***25%***	***25%***

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 over the last decade.

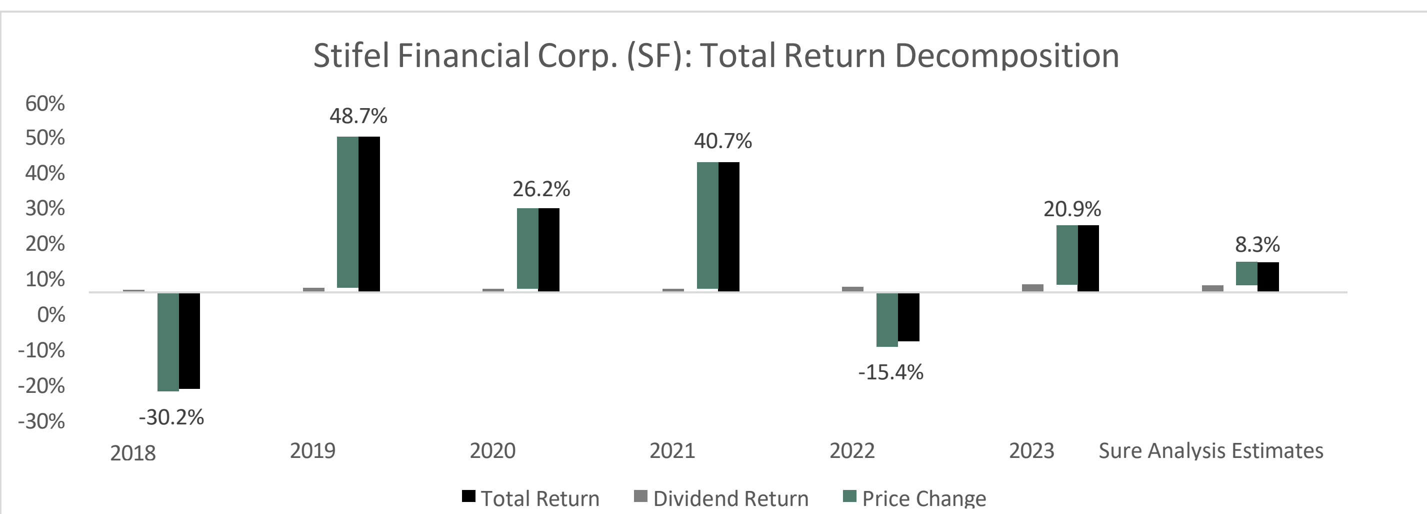
The company is also financially sound. SF's Tier 1 risk-based capital ratio of 17.9% was a solid improvement over Q3 2023's figure of 16.9%. For context, that's much better than the 4% floor required by regulators. This earns SF respective credit ratings of BBB and BBB+ from S&P and Fitch and both agencies assign Stifel a stable ratings outlook.

The company's dividend payout ratio is set to be around 25% in 2024. This is also low enough to withstand the temporary downturns in non-GAAP diluted EPS that happen occasionally. That has SF positioned to build on its seven-year dividend growth streak in the coming years.

Final Thoughts & Recommendation

Stifel Financial's 1.6% dividend yield, 10.0% annual non-GAAP diluted EPS prospects, and a 3.1% annual valuation multiple contraction could deliver 8.3% annual total returns through 2029. As it stands, the stock's valuation remains a hurdle for us to assign a buy rating. As a result, we're reiterating our 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.