S&P Global (SPGI)

Earnings Update
Hold | Market Perform
Santiago Quinonez | February 17, 2023

Overview

Summary

SPGI released full year earnings that were largely in line with expectations, beating slightly on revenue and EPS (2% and 2.4% respectively). While GAAP numbers are insignificant due to the company's merger with IHS market, adjusted revenue decreased 4%, while adjusted net income decreased by 9% to $3.76 billion. This meant that EPS decreased by 4% to $11.19 on an adjusted basis, with management stating that a challenging issuance environment continued to create headwinds for the Ratings business, which was partially offset by growth across the company's other core businesses. Adjusted operating margin decreased by 250 bps to 44.9% primarily due to a decline in ratings transaction revenue along with increases from technological and merger-related expenses. Margin impact was partially offset by lower incentive expenses and cost synergies. In FY 2022, the company returned more than $13bn to shareholders through $12bn share repurchases and $1bn in dividends. This allowed lowered the impact that the decline in net income had on EPS for the FY. Management mentions that excluding ratings, total revenue would have increased by 4%, driven by continued growth from recurring revenue from their other core offerings.

Guidance from management was optimistic, with the company stating that the sale of the Engineering Solutions division, a projected single-digit increase in debt issuance, further price action in the equity and commodity markets, and GDP growth of 2.2% leading to an expected revenue growth of 5%. At the same time, the company expects operating margin to increase roughly 1.1 percentage points to 46%, which combined with an additional $500m in share repurchases should lead to an EPS increase between 10% and 12% to a range of $12.35 to $12.55 for the full fiscal year.

My fair value assumes growth of 11% from the $11.19 FY2022 EPS figure for the next year, then 7% growth going forward until 2027. With an exit multiple of 30x, the expected stock price in 2027 is $505.44, which means a 41.9% upside in the next five years, or roughly 7.3% annually. With this, I would say that this investment is currently trading within a range of fair value and therefore, we should hold this investment.

QQYY Earnings

Results

Due to the merger with IHS Markit, YoY figures are not meaningful. As such the variance table would not be informational and will therefore not be shown for this company.

For Q4:
Total revenue was down 6.4%, driven by a 28.8% decline in Ratings revenue and a 3.9% decline in revenue from Engineering Solutions. Growth in Market Intelligence and the other segments helped partially offset the decline in Ratings and Engineering solutions. Revenue was up 4% for the quarter excluding Ratings since Ratings accounted for 35% of total revenue. The company's operating margin decreases by 1.3 percentage points for the quarter to 41.2%, driven by significant margin pressure on the Ratings, Mobility, Indices, and Engineering Solutions businesses. This was slightly offset by margin improvement in Market Intelligence and Commodity Insights. Net margin for the quarter was 28.2%, while EPS were $2.54, a 5% decrease from 2021.

Ratings (39% of revenue and 38% of op. income):
Revenue decreased 29% to $705m, with transaction revenue decreasing $249m in Q4 due to decreases in issuance volumes, while non-transaction revenue decreased 6% to $456m due to to lower fees associated with Rating Evaluation Services and new-entity credit ratings, partially offset by growth in CRISIL. Adjusted operating profit decreased 40% to $338m and adjusted operating margin decreased by 910bps to 48% due to declines in transaction revenue.

Commodity Insights (22% of revenue and 23% of op. income):
Adjusted revenue increased by 4% to $451m with growth coming from the core subscription businesses and increased global trading activity. This segment had growth in all categories, primarily in Price Assessments and Energy & Resources & Data Insights. Adjusted operating profit increased by 10% to $201m, while adjusted operating margin increased 230 bps to 44.6% as expenses were flat YoY due to merger-related synergies, lower outsourcing expenses, and lower advertising and promotion expenses.

Mobility (17% of revenue and 13% of op. income):
Adjusted revenue increased 9% to $345 million with growth driven by strong and broad-based performance across Dealer, Manufacturing, and Financials. Adjusted operating profit decreased by 2% to $117m and adjusted operating profit margin decreased by 380bps to 34%, driven by increases in expenses due to increased headcount, advertising spend, and cloud expenses.

S&P Dow Jones Indexes (17% of revenue and 24% of op. income):
Year-end 2022 ETF AUM based on their indices decreased 12% from year-end 2021 to $2.6 trillion as a result of price depreciation, partially offset by continued positive fund inflows. Adjusted revenue increased 4% to $344m driven by Exchange-Traded Derivatives revenue, offset by a decline in Asset-Linked Fees. Adjusted operating profit decreased 2% to $214m, while the adjusted operating margin decreased by 140bps to 62.2% due to one-time outside service expenses and strategic investments.

Engineering Solutions (5% of revenue and 2% of op. income):
Adjusted revenue decreased by 4% to $99m, while operating profit decreased by 34% to $15m for the quarter. Adjusted operating margin decreased by 700bps to 15.2% for the quarter. On January 17th, the company announced it would sell the division for $975 million or $750 net of tax to KKR. The divestiture is expected to close by the end of Q2, 2023

Other Commentary & Items

Merger synergies are better than expected. Management said that the company is exceeding expectations, generating $276m in synergies vs the expected $240. Therefore, the firm has hit 70% of its total synergy goal 10 months after the completion of the merger with HIS Markit. Cumulatively, the company had generated $800m in synergies, and expects to complete 85% of all projected synergies by the end of the year.

IOFS

Only meaningful IOFS were discussed in the earnings recap, as the company's gaap financials are currently nor meaningful.

Margins are expected to improve going forward once cost and revenue synergies are completed from the HIS market merger. Calculation of return on capital will likely be different as the company now has a largely different balance sheet which includes higher intangibles (especially goodwill). The company's obligation ratio is still at a healthy 3.8 years.

Valuation

Ticker:	SPGI												
Price:	$356.09		5 Year EPS Forecast										
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2023	2024	2025	2026	2027	20.0x	$316.23	$187.67	(11.2)%	**(2.3)%**
		$11.19	$12.31	$12.92	$13.57	$14.25	$14.96	30.0x	$465.85	$276.46	30.8%	**5.5%**
			10%	*5%*	*5%*	*5%*	*5%*	40.0x	$615.47	$365.25	72.8%	**11.6%**
Base	EPS	Current	2023	2024	2025	2026	2027	20.0x	$342.63	$203.33	(3.8)%	**(0.8)%**
		$11.19	$12.42	$13.29	$14.22	$15.22	$16.28	30.0x	$505.44	$299.95	41.9%	**7.3%**
			11%	*7%*	*7%*	*7%*	*7%*	40.0x	$668.25	$396.57	87.7%	**13.4%**
Bull	EPS	Current	2023	2024	2025	2026	2027	20.0x	$370.82	$220.06	4.1%	**0.8%**
		$11.19	$12.53	$13.66	$14.89	$16.23	$17.69	30.0x	$547.73	$325.05	53.8%	**9.0%**
			12%	*9%*	*9%*	*9%*	*9%*	40.0x	$724.64	$430.04	103.5%	**15.3%**

Discount rate: 11%

Total RoR Sensitivity

$11.19		Est. EPS growth rate		
		10%	11%	12%
P / E	20.0x	(2.3)%	(0.8)%	0.8%
	30.0x	5.5%	7.3%	9.0%
	40.0x	11.6%	13.4%	15.3%