

S&P Global Inc (SPGI)

Earnings Update

Hold | Underperform

William Errett | February 14, 2024



Overview

Summary

S&P Global is a wide moat business with intangible assets in the form of brand trust, sticky customers, and barriers to entry. Additionally, they benefit from cost advantages surrounding their cost structure in software being largely fixed.

S&P Global reported earnings in line with expectations on a GAAP basis. Revenue beat by .7% and Earnings missed by .4%. Revenue increased to \$3.1 Bn, which was up 7% on a GAAP basis. Operating profit increased 15% due to increases in revenue and operating margin expansion. Earnings per share increased 23% compared to Q3 FY22 to \$3.13 per share compared to \$2.54 per share.

In terms of segments, Market Intelligence grew 9% due to solid performance across all subsegments. Global Ratings grew 19%, which was primarily driven by corporate ratings and Structured Finance Subsegments. Commodity Insights grew 10% due to solid performance across all subsegments during the quarter. Mobility grew 9% as well from solid performance across all subsegments. Finally, their Dow Jones Indices revenues grew 5% primarily due to exchange-traded derivatives.

Adjusted guidance for the full year called for revenue growth between 5.5% and 7.5%. The operating profit margin is set to expand by 1% as well. Diluted GAAP EPS is expected to finish the year at \$13.85.

Part of S&P Global's high growth opportunities in the coming years are due to their continued revenue and cost synergies that are being realized from their merger with IHS Markit. So far, they have realized \$619 Mn in cost synergies which is above their 2023 target, and \$152 in revenue synergies, which is below their 2026 target of \$350 Mn.

In terms of macroeconomic impact S&P Global continues to see mixed impact on their earnings. Generally, impacts from the macroeconomic environment tend to have opposite effects on different segments of their business, for example equity markets and credit ratings.

I found valuing this business to be extremely tough. I think that it is still necessary to use Adj earnings due to merger-related amortization costs, these adjustments will also be lapped next quarter. Additionally, while revenue growth of 8-10% for this business is easily achievable, almost all their EPS growth will be generated from margin expansion going forward as you lap quarters without cost synergies, which I found hard to forecast. Overall, I am not worried about this business, and I do not see it as a buying opportunity. My recommendation is to HOLD.

IOFS

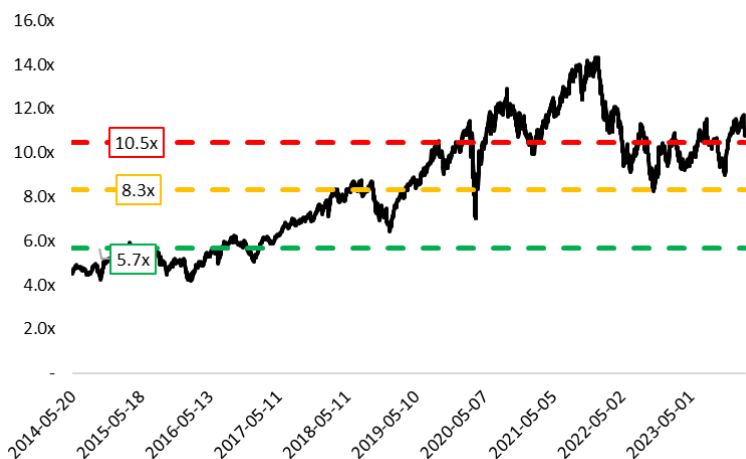
S&P Global is generally a perfect IOFS company except for their ROE, which has declined due to increases in their equity accounts that came from the merger. The business is continuing to grow slowly when considering the one-time benefits from divestitures that were used in 2022.

	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	2021-12	2022-12	2023-12
IOFS										
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	\$ 7,428	\$ 8,356
Operating Income	\$ 122	\$ 1,906	\$ 2,240	\$ 2,583	\$ 2,790	\$ 3,177	\$ 3,601	\$ 4,210	\$ 3,019	\$ 4,054
Net Income	\$ (115)	\$ 1,156	\$ 2,106	\$ 1,496	\$ 1,958	\$ 2,123	\$ 2,339	\$ 3,024	\$ 3,248	\$ 2,626
Free Cash Flow	\$ 1,117	\$ 217	\$ 1,445	\$ 1,893	\$ 1,951	\$ 2,661	\$ 3,491	\$ 3,563	\$ 2,514	\$ 3,567
EBIT	\$ 113	\$ 1,917	\$ 3,369	\$ 2,610	\$ 2,815	\$ 3,071	\$ 3,369	\$ 4,283	\$ 5,006	\$ 4,005
EBITDA	\$ 247	\$ 2,074	\$ 3,550	\$ 2,790	\$ 3,021	\$ 3,275	\$ 3,575	\$ 4,461	\$ 6,019	\$ 5,148
Dividend Yield %	1.35	1.34	1.34	0.97	1.18	0.84	0.82	0.65	0.98	0.82
Gross Margin	67.3%	67.7%	68.7%	72.1%	70.6%	70.5%	71.9%	73.5%	66.4%	66.9%
Operating Margin	2.4%	35.9%	39.6%	42.6%	44.6%	47.4%	48.4%	50.7%	27.0%	32.4%
Net Margin	-2.3%	21.8%	37.2%	24.7%	31.3%	31.7%	31.4%	36.4%	29.0%	21.0%
FCF Margin	22.1%	4.1%	25.5%	31.2%	31.2%	39.7%	46.9%	42.9%	22.5%	28.5%
D&A/ Gross Profit	3.9%	4.4%	4.7%	4.1%	4.7%	4.3%	3.9%	2.9%	13.6%	13.7%
R&D/ Gross Profit	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A/ Gross Profit	92.5%	42.6%	37.7%	36.8%	32.2%	28.4%	28.8%	28.1%	45.7%	37.8%
SBC/ Revenue	2.0%	1.5%	1.3%	1.6%	1.5%	1.2%	1.2%	1.5%	1.9%	1.4%
Capex/ Net Income	-80.0%	12.0%	5.5%	8.2%	5.8%	5.4%	3.2%	1.2%	2.7%	5.4%
Dividend Payout ratio	-35.0%	318.9%	18.1%	28.4%	25.9%	26.5%	27.7%	24.6%	32.5%	43.7%
Shares Outstanding	271.5	274.6	265.2	258.9	253.2	246.9	242.1	241.8	318.5	318.9
Returns %										
ROE	-12.9	339.0	499.1	220.2	292.9	383.6	473.5	238.0	16.9	7.4
ROTE	0.0	Negative Tan	Negative Tan	Negative Tan	Negative Tan	Negative Tan	Negative Tan	Negative Tan	Negative Tan	Negative Tan
ROIC	-8.5	21.7	21.3	22.6	27.4	28.3	29.3	33.7	6.3	5.2
ROCE	3.5	47.2	59.5	42.5	43.2	40.8	39.2	42.5	14.9	7.3
ROA	-1.8	15.5	25.0	16.5	20.8	20.4	19.6	21.9	8.5	4.3
Leverage & Liquidity										
LT Debt	795	3468	3564	3170	3662	4568	4654	4606	11307	11953
ST Debt	0	143	0	399	0	0	0	0	226	47
PF Stock	0	0	0	0	0	0	0	0	0	0
Leases*7	0	0	0	0	0	784	700	672	0	0
Pension SF	#CALCULATION?									
Cash	\$ 2,497	\$ 1,481	\$ 2,392	\$ 2,777	\$ 1,917	\$ 2,866	\$ 4,108	\$ 6,497	\$ 1,286	\$ 1,290
Obligation Ratio ⁽¹⁾	14.8x	1.8x	0.6x	0.5x	0.9x	1.2x	0.5x	(0.4)x	3.2x	4.1x
Cash/ Revenue	49.4%	27.9%	42.3%	45.8%	30.6%	42.8%	55.2%	78.3%	11.5%	10.3%
Per Share Data										
Revenue	\$ 18.60	\$ 19.35	\$ 21.35	\$ 23.42	\$ 24.72	\$ 27.13	\$ 30.74	\$ 34.31	\$ 35.11	\$ 39.19
Owners Earnings	\$ (2.15)	\$ (0.39)	\$ 8.37	\$ 5.83	\$ 6.45	\$ 9.21	\$ 11.04	\$ 12.67	\$ 11.00	\$ 9.03
Earnings	\$ (0.42)	\$ 4.21	\$ 7.94	\$ 5.78	\$ 7.73	\$ 8.60	\$ 9.66	\$ 12.51	\$ 10.20	\$ 8.23
Operating Cash Flow	\$ 4.45	\$ 1.30	\$ 5.88	\$ 7.79	\$ 8.15	\$ 11.24	\$ 14.73	\$ 14.88	\$ 8.17	\$ 11.63
Free Cash Flow	\$ 4.11	\$ 0.79	\$ 5.45	\$ 7.31	\$ 7.71	\$ 10.78	\$ 14.42	\$ 14.74	\$ 7.89	\$ 11.19
Dividends	\$ 1.20	\$ 1.32	\$ 1.44	\$ 1.64	\$ 2.00	\$ 2.28	\$ 2.68	\$ 3.08	\$ 3.32	\$ 3.60
Book Value	\$ 1.79	\$ 0.73	\$ 2.52	\$ 2.79	\$ 2.52	\$ 1.96	\$ 2.11	\$ 8.43	\$ 110.60	\$ 106.21
Tangible Book Value	\$ (7.00)	\$ (15.83)	\$ (14.73)	\$ (14.44)	\$ (17.80)	\$ (18.53)	\$ (19.00)	\$ (11.45)	\$ (50.04)	\$ (56.05)

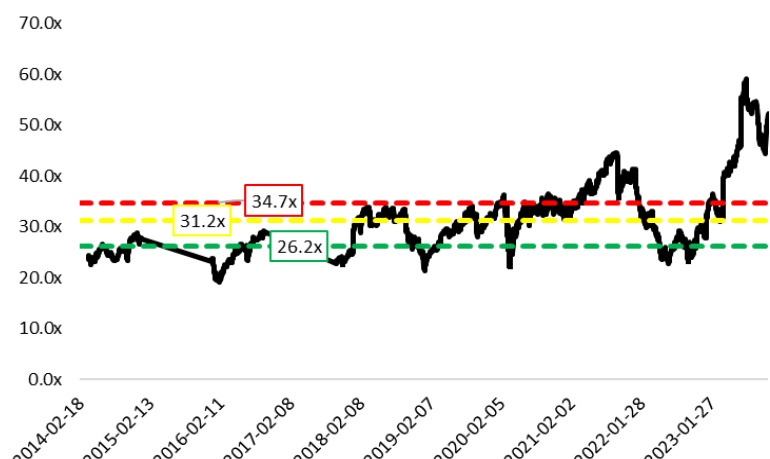
The obligation ratio for this business expanded meaningfully following the merger with IHS Markit moving their long-term liabilities to almost \$12Bn and lowering cash from \$6Bn to \$1.5Bn. Additionally, after lapping one time charge offs that affected GAAP Net Income the obligation ratio expanded to 4.1x. However, as the business advances and laps the quarters with lower cost synergies with revenue growth I expect the growth of this business to be very rapid. Because of this the obligation ratio should decrease back to the 3.0x range.

Valuation

Price to Sales

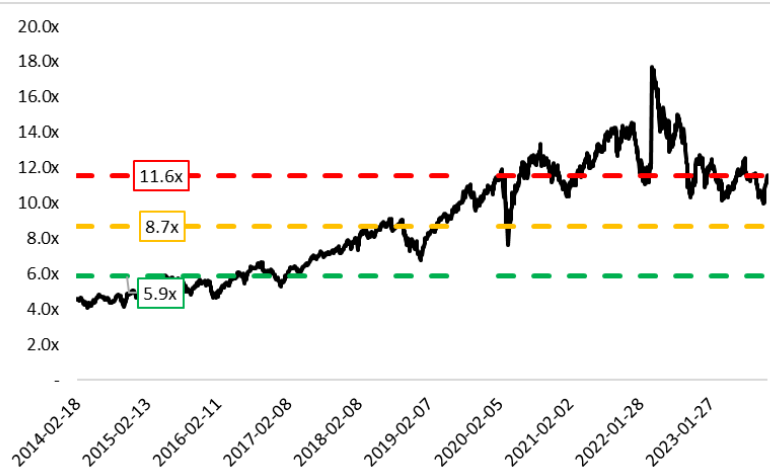


Price to Earnings

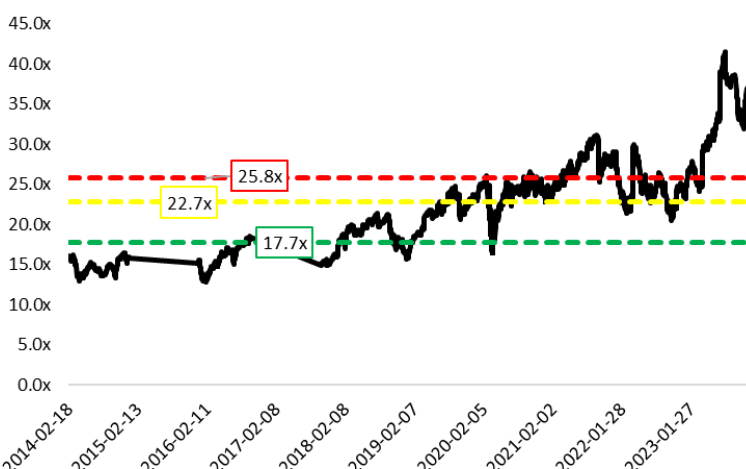


Price to Book (Not Meaningful)

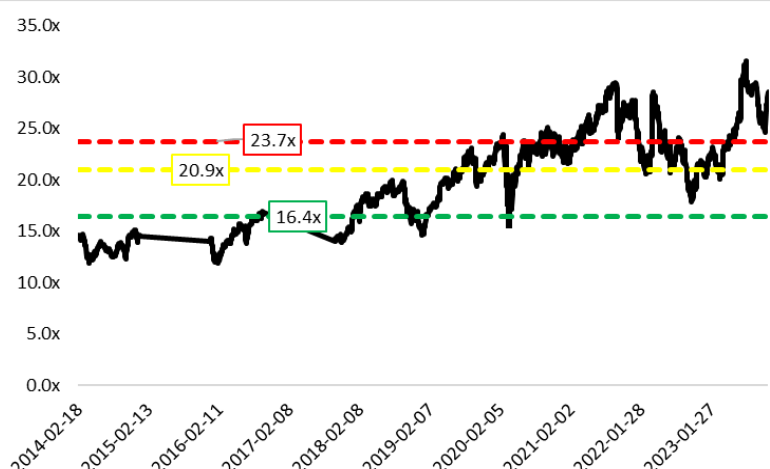
EV / Revenue



EV / EBIT



EV / EBITDA



While it looks that S&P Global is currently trading tremendously overvalued it is important to note that their growth opportunities for the near future are extremely high. Additionally, there are a few quarters which have 1-time implications that the market may not be responding to. However, after doing my DCF and forecasting the future growth of this business I do not think that there is a significant buying opportunity right now.

Ticker: SPGI Price: \$423.61 5 Year EPS Model											
							P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	24.0x	\$447.39	\$280.76	5.6%	1.1%
	Adj EPS	\$12.60	\$13.48	\$14.43	\$15.44	\$16.52	27.0x	\$500.41	\$313.68	18.1%	3.4%
			7%	7%	7%	7%	30.0x	\$553.42	\$346.60	30.6%	5.5%
Base	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	24.0x	\$512.40	\$318.16	21.0%	3.9%
	Adj EPS	\$12.60	\$13.86	\$15.25	\$16.77	\$18.45	27.0x	\$573.28	\$355.96	35.3%	6.2%
			10%	10%	10%	10%	30.0x	\$634.16	\$393.76	49.7%	8.4%
Bull	<u>Current</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	24.0x	\$584.83	\$363.13	38.1%	6.7%
	Adj EPS	\$12.60	\$14.24	\$16.09	\$18.18	\$20.54	27.0x	\$654.48	\$406.38	54.5%	9.1%
			13%	13%	13%	13%	30.0x	\$724.12	\$449.62	70.9%	11.3%

