

S&P Global

Guidance is a gift to S&P's new CFO

Reiterate Rating: BUY | PO: 530.00 USD | Price: 436.63 USD

When you think about it, no other way to start off 2024

With the 4Q print, investors were disappointed by a lower-than-expected 2024 guide. However, with guidance partly dependent on hard-to-predict macro factors (debt issuance, market performance, economic growth), we think this was the best way for S&P to start the year. We expect EPS upside driven in part by stronger than guided issuance amid a rising refi wall and lower rates. We reiterate our Buy and are raising our PO by \$50 to \$530 as we roll forward our estimates to 2025 (multiple unchanged).

4Q EPS beat with robust Ratings sales leading the way

4Q's \$3.13 EPS beat our/the Street's \$3.10. The beat to our view was on a lower tax rate. The beat to the Street was largely on higher sales (+7.3% vs. the Street's/our 6.7/7.6%), partly offset by a lower margin (44.1% vs. the Street's/our 46.0/45.4%). On sales, S&P beat the Street for all segments but Indices. We note that S&P is impacted by market moves on a one-quarter lag; we expect a stronger 1Q24 in Indices as a result. Interestingly, the margin miss to the Street was across all segments ex Indices.

2024 EPS leaves room for beats (just as we like it)

SPGI initiated 2024 \$13.75-\$14.00 adj. EPS guide, which was ~2-3.5% below \$14.24 consensus (we were at \$14.54). A tax rate hurts y/y growth by 200-300bp. S&P's outlook factors in 7-9% organic sales and 100bp of margin expansion (to 46.9%). S&P noted that there's more upside than downside risk in the guide. S&P tries to guide conservatively, but we also think its leaving added cushion amid an uncertain macro and a permanent CFO search (we don't think a new CFO is going to want to inherit guidance with material downside risk). We're trimming our 2024 EPS by 3% to \$14.12. We're above guidance and think there could be additional upside, especially on debt issuance.

Yes they can...realize their synergies!

We think a key investor debate is if S&P can execute on its sales synergies. The skepticism is largely because there's a long list of past Info Services M&A where execution fell short. It's not a reflection on S&P. S&P exited 2024 with run-rate \$152mn sales synergies (out of its \$350mn 2026 target), while S&P has guided to \$158mn realized in 2024. We think the 2024 target likely gets raised in 1Q.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.19	12.61	14.12	16.08	18.08
GAAP EPS	10.20	8.24	10.93	12.89	14.88
EPS Change (YoY)	-3.8%	12.7%	12.0%	13.9%	12.4%
Consensus EPS (Bloomberg)			14.45	16.39	18.15
DPS	3.40	3.60	3.64	3.82	4.01
Valuation (Dec)					
P/E	41.1x	36.5x	32.6x	28.6x	25.4x
GAAP P/E	45.1x	55.8x	42.1x	35.7x	30.9x
Dividend Yield	0.7%	0.8%	0.8%	0.8%	0.9%
EV / EBITDA*	30.2x	28.1x	25.3x	22.9x	20.9x
Free Cash Flow Yield*	1.7%	2.4%	3.3%	3.7%	4.0%

* For full definitions of *IQmethod*SM measures, see page 4.

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	480.00	530.00
2024E Rev (m)	13,507.0	13,463.0
2025E Rev (m)	14,663.2	14,616.0
2026E Rev (m)	15,876.6	15,826.4
2024E EPS	14.54	14.12
2025E EPS	16.35	16.08
2026E EPS	18.44	18.08
2024E DPS	3.78	3.64

Heather Balsky

Research Analyst
BofAS
+1 646 855 1497
heather.balsky@bofa.com

Emily Marzo

Research Analyst
BofAS
emily.marzo@bofa.com

Stock Data

Price	436.63 USD
Price Objective	530.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-1-7
52-Week Range	321.15 USD - 461.16 USD
Mrkt Val (mn) / Shares Out (mn)	138,324 USD / 316.8
Free Float	99.8%
Average Daily Value (mn)	459.22 USD
BofA Ticker / Exchange	SPGI / NYS
Bloomberg / Reuters	SPGI US / SPGI.N
ROE (2024E)	12.9%
Net Dbt to Eqty (Dec-2023A)	31.2%
ESGMeter TM	High

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Timestamp: 08 February 2024 04:45PM EST

iQprofileSM S&P Global

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.9%	8.2%	9.2%	10.3%	11.4%
Return on Equity	18.5%	11.4%	12.9%	14.9%	16.8%
Operating Margin	47.6%	45.9%	45.9%	46.9%	47.4%
Free Cash Flow	2,514	3,567	4,846	5,337	5,816

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.9x	1.1x	1.1x	1.1x
Asset Replacement Ratio	-0.1x	-0.1x	-0.2x	-0.2x	-0.2x
Tax Rate	25.1%	21.2%	21.5%	21.0%	21.0%
Net Debt-to-Equity Ratio	28.1%	31.2%	28.8%	28.8%	29.2%
Interest Cover	17.5x	17.2x	17.3x	19.9x	22.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	11,181	12,497	13,463	14,616	15,826
% Change	34.8%	11.8%	7.7%	8.6%	8.3%
Gross Profit	11,181	12,497	13,463	14,616	15,826
% Change	34.8%	11.8%	7.7%	8.6%	8.3%
EBITDA	5,427	5,833	6,472	7,172	7,847
% Change	-8.7%	7.5%	11.0%	10.8%	9.4%
Net Interest & Other Income	(242)	(347)	(369)	(355)	(350)
Net Income (Adjusted)	3,564	4,021	4,402	4,983	5,477
% Change	26.7%	12.8%	9.5%	13.2%	9.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,248	2,627	3,408	3,993	4,508
Depreciation & Amortization	108	101	98	116	131
Change in Working Capital	(74)	(460)	(37)	(113)	(153)
Deferred Taxation Charge	(353)	(381)	0	0	0
Other Adjustments, Net	(326)	1,823	1,550	1,536	1,548
Capital Expenditure	(89)	(143)	(173)	(195)	(219)
Free Cash Flow	2,514	3,567	4,846	5,337	5,816
% Change	-29.4%	41.9%	35.9%	10.1%	9.0%
Share / Issue Repurchase	(12,004)	(3,301)	(2,400)	(3,500)	(4,000)
Cost of Dividends Paid	(1,024)	(1,147)	(1,135)	(1,184)	(1,216)
Change in Debt	1,665	556	(193)	0	1

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,286	1,289	2,023	2,266	2,424
Trade Receivables	2,494	2,685	3,003	3,260	3,530
Other Current Assets	1,887	1,169	691	750	813
Property, Plant & Equipment	297	258	332	411	498
Other Non-Current Assets	55,820	55,188	54,130	53,123	52,147
Total Assets	61,784	60,589	60,180	59,810	59,412
Short-Term Debt	226	47	4	3	1,732
Other Current Liabilities	5,773	6,078	5,882	6,086	6,264
Long-Term Debt	11,307	11,953	11,803	11,804	10,076
Other Non-Current Liabilities	8,001	8,211	8,497	8,808	9,150
Total Liabilities	25,307	26,289	26,186	26,701	27,223
Total Equity	36,477	34,300	33,994	33,110	32,190
Total Equity & Liabilities	61,784	60,589	60,180	59,810	59,412

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

S&P Global (SPGI) is a highly diversified market data company that provides credit ratings, benchmarks, analytics, and workflow solutions to the global capital, commodities, and automotive markets.

Investment Rationale

We rate SPGI with a Buy rating. The Street undervalues S&P's attractive growth story that includes an improving credit supply cycle, M&A sales synergies (ramping in 2024), and more diversified sales mix post its IHS acquisition. We expect multiple expansion as credit supply inflects positive and the market rewards it for a steadier sales algorithm post IHS.

Stock Data

Average Daily Volume

1,051,748

Quarterly Earnings Estimates

	2023	2024
Q1	3.15A	2.84E
Q2	3.12A	2.78E
Q3	3.21A	2.72E
Q4	3.13A	2.59E

Price objective basis & risk

S&P Global (SPGI)

Our \$530 price objective is based on a 33x 2025E P/E. This is a 2x premium to peers. We think a modest premium is warranted given its higher earnings growth potential and potential to beat and raise.

Downside risks to our price objective are: 1) credit issuance recovery is weaker than expected due to higher rates, 2) an economic downturn leads to further issuance declines and reduces demand for S&P's data and analytical tools, 3) greater than sales pressure at Market Intelligence due to financial services customers cost cutting, 4) the company is not successful in realizing IHS sales synergies, and 5) management is distracted by the IHS integration.

Upside risks to our price objective are: 1) a faster than expected credit issuance recovery, 2) higher than expected sales upside from IHS Markit synergies, 3) stronger than expected global market growth benefitting Indices, and 4) greater than expected share buybacks.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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SPGI (SPGI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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