

S&P Global

4Q23 EPS preview: two sales drivers that we are excited about in 2024

Reiterate Rating: BUY | PO: 480.00 USD | Price: 437.73 USD

2024 should be a good year for S&P

SPGI will report 4Q23 EPS on February 8th before market open. We are positive on the stock into 2024 as we expect recovering debt issuance and momentum on its IHS sales synergies to drive earnings beats and multiple expansion. We reiterate our Buy rating.

Early, but very positive signs of a pending issuance boom

Recent trends bode positively for 4Q debt issuance and we think momentum persists into 2024. S&P's October/November billed issuance were +26/47% y/y, vs. 3Q/1H23's +21/0%. Also, data from BofA's Credit Strategists points to good 4Q trends in the US, although combined US high yield & loan issuance was not as strong as in 3Q. US investment grade issuance was +6% in 4Q (vs. 3Q/2Q's (1)/19%), while high yield + loan issuance was +92% (vs. 3Q/2Q's +196/29%).

Investors saying: show me the sales synergies

We think S&P has significant opportunities to leverage IHS data to cross-sell and launch new products. However, all M&A has risk and there are a fair number of cautionary tales in Info Services. We think further progress on the cross-selling front would be a positive for investor confidence and could attract new investors. As of 3Q, SPGI had already executed to achieve \$112mn of run-rate synergies, 32% of its \$350mn 2026 run-rate goal. This puts SPGI well on track to realize its ~\$157mn 2024 sales synergy goal.

We're raising our 4Q23E EPS 4c to \$3.10

Our revised view reflects a higher ratings outlook and is now a penny above \$3.09 consensus. Our \$12.58 2023 EPS is towards the high-end of \$12.50-12.60 guidance. For 4Q, we model 7.6% revenue growth and +415bp of EBIT margin expansion to 45.4%. The Street is forecasting 6.1% revenue growth and 45.9% margins.

We are 2% above 2024 consensus

We expect 2024 guidance to include a gradual recovery in debt issuance. That said, we would not be shocked by a cautious initial guide given limited visibility on the pace of the issuance recovery. We are modeling \$14.54 2024E EPS driven by 8.0% revenue growth and 140bp of EBIT margin expansion to 47.6%. The Street's \$14.23 2024 EPS reflects 7.2% sales growth and 46.3% margins.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	11.63	11.19	12.58	14.54	16.35
GAAP EPS	12.51	10.20	8.94	11.83	13.66
EPS Change (YoY)	18.3%	-3.8%	12.4%	15.6%	12.4%
Consensus EPS (Bloomberg)			12.60	14.43	16.39
DPS	3.08	3.40	3.60	3.78	3.97
Valuation (Dec)					
P/E	37.6x	39.1x	34.8x	30.1x	26.8x
GAAP P/E	35.0x	42.9x	49.0x	37.0x	32.0x
Dividend Yield	0.7%	0.8%	0.8%	0.9%	0.9%
EV / EBITDA*	26.4x	28.9x	26.8x	24.0x	21.8x
Free Cash Flow Yield*	2.6%	1.8%	2.7%	3.5%	4.0%

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

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Timestamp: 18 January 2024 12:30AM EST

18 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	12,481.1	12,505.6
2024E Rev (m)	13,477.9	13,507.0
2025E Rev (m)	14,631.4	14,663.2
2023E EPS	12.54	12.58
2024E EPS	14.48	14.54
2025E EPS	16.29	16.35

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Stock Data

Price	437.73 USD
Price Objective	480.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-1-7
52-Week Range	321.15 USD - 443.72 USD
Mrkt Val (mn) / Shares Out (mn)	138,673 USD / 316.8
Free Float	99.8%
Average Daily Value (mn)	513.21 USD
BofA Ticker / Exchange	SPGI / NYS
Bloomberg / Reuters	SPGI US / SPGI.N
ROE (2023E)	11.2%
Net Dbt to Eqty (Dec-2022A)	28.1%
ESGMeter™	High

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iQprofileSM S&P Global

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	45.6%	11.9%	8.1%	9.3%	10.4%
Return on Equity	210.0%	18.5%	11.2%	13.1%	14.9%
Operating Margin	70.7%	47.6%	46.8%	47.6%	48.4%
Free Cash Flow	3,563	2,514	3,795	4,837	5,554

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	0.7x	1.0x	1.1x	1.1x
Asset Replacement Ratio	-2.5x	-0.1x	-0.1x	-0.2x	-0.2x
Tax Rate	21.6%	25.1%	22.6%	21.0%	21.0%
Net Debt-to-Equity Ratio	-89.7%	28.1%	29.3%	30.2%	29.5%
Interest Cover	48.9x	17.5x	16.7x	17.8x	20.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,297	11,181	12,506	13,507	14,663
% Change	11.5%	34.8%	11.8%	8.0%	8.6%
Gross Profit	8,297	11,181	12,506	13,507	14,663
% Change	11.5%	34.8%	11.8%	8.0%	8.6%
EBITDA	5,945	5,427	5,863	6,523	7,206
% Change	15.6%	-8.7%	8.0%	11.3%	10.5%
Net Interest & Other Income	(58)	(242)	(341)	(362)	(355)
Net Income (Adjusted)	2,812	3,564	4,012	4,513	5,027
% Change	18.2%	26.7%	12.6%	12.5%	11.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	3,025	3,248	2,852	3,672	4,198
Depreciation & Amortization	82	108	85	95	106
Change in Working Capital	(70)	(74)	(316)	(305)	(124)
Deferred Taxation Charge	13	(353)	(430)	0	0
Other Adjustments, Net	548	(326)	1,750	1,539	1,558
Capital Expenditure	(35)	(89)	(146)	(163)	(185)
Free Cash Flow	3,563	2,514	3,795	4,837	5,554
% Change	2.1%	-29.4%	51.0%	27.5%	14.8%
Share / Issue Repurchase	0	(12,004)	(3,041)	(3,300)	(3,500)
Cost of Dividends Paid	(743)	(1,024)	(1,148)	(1,174)	(1,220)
Change in Debt	0	1,665	406	(43)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	6,497	1,286	1,600	1,548	1,985
Trade Receivables	1,650	2,494	2,687	2,975	3,230
Other Current Assets	663	1,887	642	729	791
Property, Plant & Equipment	241	297	291	360	438
Other Non-Current Assets	5,975	55,820	55,246	54,223	53,216
Total Assets	15,026	61,784	60,466	59,834	59,661
Short-Term Debt	0	226	47	4	3
Other Current Liabilities	3,815	5,773	5,704	5,774	5,967
Long-Term Debt	4,606	11,307	11,808	11,808	11,809
Other Non-Current Liabilities	4,498	8,001	7,936	8,216	8,517
Total Liabilities	12,919	25,307	25,495	25,802	26,297
Total Equity	2,107	36,477	34,971	34,032	33,364
Total Equity & Liabilities	15,026	61,784	60,466	59,834	59,661

* 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

1,172,446

Quarterly Earnings Estimates

	2022	2023
Q1	2.89A	3.15A
Q2	2.81A	3.12A
Q3	2.93A	3.21E
Q4	2.54A	3.10E

Price objective basis & risk

S&P Global (SPGI)

Our \$480 price objective is based on a 33x 2024E 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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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



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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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