

## S&amp;P Global

# Coverage initiation feedback: S&P appears to be a consensus favorite

Maintain Rating: BUY | PO: 465.00 USD | Price: 391.84 USD

## S&P has the wind at its back & investors riding the wave

We initiated coverage on S&P Global (SPGI) with a Buy rating last week. Investor feedback has been lighter compared to the other Market Data names (MSCI, Moody's, FactSet). We think that is because S&P is less of a debate stock and valuation is not too rich (at 26x). We think the Street undervalues its accelerating sales growth story, boosted by a credit supply recovery, IHS Markit sales synergies (ramping in 2024), and higher mix of recurring revenues post IHS. Our 2024 EPS estimate is 5% higher than the Street. We expect multiple expansion as credit issuance recovers and as the market rewards it for a steadier sales algorithm post IHS. Our \$465 price objective is 31.5x 2024E P/E.

## S&P's valuation is attractive to investors

Based on our conversations so far, S&P appears to be a consensus long for investors. As valuations across Information Services creep higher, S&P is viewed by some as one of the few relatively inexpensive growth names. Investors seem to like the stock for its exposure to the improving credit issuance cycle, but also for its potential EPS beats. While Moody's has higher exposure to credit issuance (49% of sales vs. 26% for S&P), some prefer S&P given its cheaper multiple (26x vs. MCO at 28x). Some investors see the potential for incremental capital returns as S&P continues to exit additional non-core businesses; we think there are some exits yet to come. Others also like that there is EPS upside on sales strength in areas outside of ratings.

## Some debate around rates

So far, pushback on our Buy rating for S&P has been limited. We have fielded some concern regarding rates staying higher for longer. We expect the business to adjust to the higher rate environment. Very recent headlines regarding increased regulation in Europe on ESG ratings is viewed as a potential risk for S&P (and Moody's and MSCI), but investors are still looking for more information on how things could unfold, as it is still early days and details are limited. Investors seem focused on whether ratings agencies could face increased regulation on the ESG front and if S&P will be able to share data between its business lines. We would view it as a negative to growth if ESG data couldn't be shared across business lines.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	11.63	11.19	12.67	14.95	16.94
GAAP EPS	12.51	10.20	8.98	12.23	14.19
EPS Change (YoY)	18.3%	-3.8%	13.2%	18.0%	13.3%
Consensus EPS (Bloomberg)			12.51	14.46	16.36
DPS	3.08	3.40	3.60	3.78	3.97
Valuation (Dec)					
P/E	33.7x	35.0x	30.9x	26.2x	23.1x
GAAP P/E	31.3x	38.4x	43.6x	32.0x	27.6x
Dividend Yield	0.8%	0.9%	0.9%	1.0%	1.0%
EV / EBITDA*	30.1x	33.0x	30.2x	26.8x	24.4x
Free Cash Flow Yield*	2.8%	2.0%	3.0%	3.9%	4.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

21 June 2023

### Equity

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### Stock Data

Price	391.84 USD
Price Objective	465.00 USD
Date Established	15-Jun-2023
Investment Opinion	B-1-7
52-Week Range	279.32 USD - 402.92 USD
Mrkt Val (mn) / Shares Out (mn)	125,702 USD / 320.8
Average Daily Value (mn)	450.04 USD
BofA Ticker / Exchange	SPGI / NYS
Bloomberg / Reuters	SPGI US / SPGI.N
ROE (2023E)	0%
Net Dbt to Eqty (Dec-2022A)	28.1%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

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Timestamp: 21 June 2023 12:30AM EDT

# iQprofile<sup>SM</sup> S&P Global

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	45.6%	11.9%	8.1%	9.6%	10.6%
Return on Equity	NA	NA	NA	NA	NA
Operating Margin	70.7%	47.6%	43.1%	48.5%	48.9%
Free Cash Flow	3,563	2,514	3,820	4,943	5,624

## iQmethod<sup>SM</sup> – 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%	22.7%	21.0%	21.0%
Net Debt-to-Equity Ratio	-89.7%	28.1%	31.1%	31.7%	30.8%
Interest Cover	48.9x	17.5x	16.4x	18.6x	20.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,297	11,181	12,475	13,562	14,748
% Change	11.5%	34.8%	11.6%	8.7%	8.7%
Gross Profit	8,297	11,181	12,475	13,562	14,748
% Change	11.5%	34.8%	11.6%	8.7%	8.7%
EBITDA	5,945	5,427	5,922	6,679	7,327
% Change	15.6%	-8.7%	9.1%	12.8%	9.7%
Net Interest & Other Income	(58)	(242)	(366)	(354)	(346)
<b>Net Income (Adjusted)</b>	<b>2,812</b>	<b>3,564</b>	<b>4,030</b>	<b>4,624</b>	<b>5,104</b>
<b>% Change</b>	<b>18.2%</b>	<b>26.7%</b>	<b>13.1%</b>	<b>14.7%</b>	<b>10.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	3,025	3,248	2,855	3,782	4,275
Depreciation & Amortization	82	108	96	104	122
Change in Working Capital	(70)	(74)	(270)	(307)	(135)
Deferred Taxation Charge	13	(353)	(167)	0	0
Other Adjustments, Net	548	(326)	1,447	1,523	1,543
Capital Expenditure	(35)	(89)	(141)	(160)	(181)
<b>Free Cash Flow</b>	<b>3,563</b>	<b>2,514</b>	<b>3,820</b>	<b>4,943</b>	<b>5,624</b>
<b>% Change</b>	<b>2.1%</b>	<b>-29.4%</b>	<b>51.9%</b>	<b>29.4%</b>	<b>13.8%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	6,497	1,286	1,405	1,436	1,943
Trade Receivables	1,650	2,494	2,817	3,137	3,411
Other Current Assets	663	1,887	641	733	798
Property, Plant & Equipment	241	297	323	379	438
Other Non-Current Assets	5,975	55,820	55,156	54,133	53,126
<b>Total Assets</b>	<b>15,026</b>	<b>61,784</b>	<b>60,341</b>	<b>59,819</b>	<b>59,716</b>
Short-Term Debt	0	226	936	3,744	3,744
Other Current Liabilities	3,815	5,773	5,690	5,796	5,999
Long-Term Debt	4,606	11,307	11,175	8,323	8,323
Other Non-Current Liabilities	4,498	8,001	8,163	8,454	8,769
<b>Total Liabilities</b>	<b>12,919</b>	<b>25,307</b>	<b>25,964</b>	<b>26,317</b>	<b>26,835</b>
<b>Total Equity</b>	<b>2,107</b>	<b>36,477</b>	<b>34,377</b>	<b>33,502</b>	<b>32,880</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,026</b>	<b>61,784</b>	<b>60,341</b>	<b>59,819</b>	<b>59,716</b>

\* For full definitions of iQmethod<sup>SM</sup> 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

1,148,535

## Quarterly Earnings Estimates

	2022	2023
Q1	2.89A	3.15A
Q2	2.81A	3.07E
Q3	2.93A	3.36E
Q4	2.54A	3.10E

## Price objective basis & risk

### S&P Global (SPGI)

Our \$465 price objective is based on a 31.5x 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

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Business, Education & Professional Services Coverage Cluster

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



## iQmethod<sup>SM</sup> 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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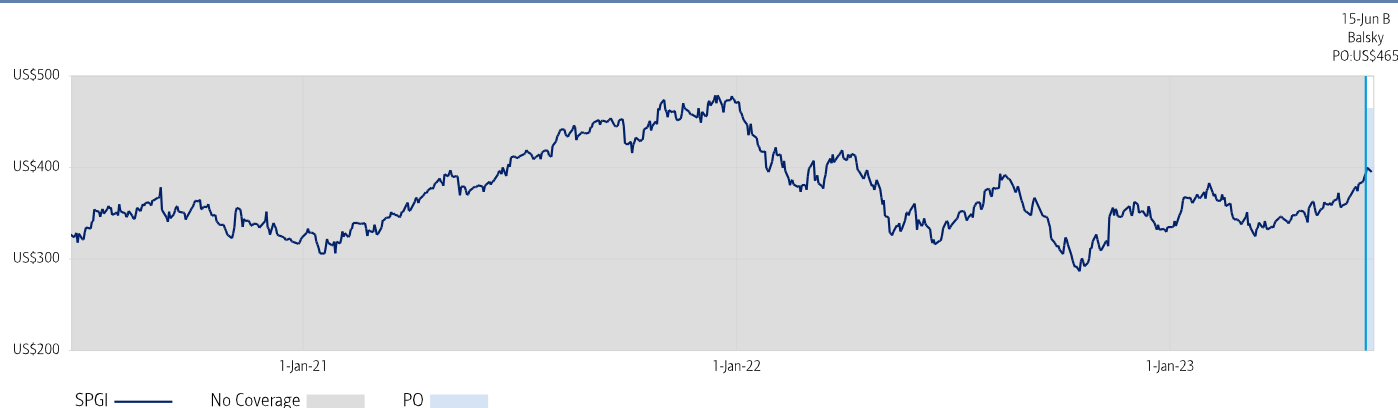
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#### SPGI (SPGI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	23	51.11%	Buy	14	60.87%
Hold	11	24.44%	Hold	9	81.82%
Sell	11	24.44%	Sell	5	45.45%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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