

Goldman Sachs

2024 Year Ahead: Back to basics

Reiterate Rating: BUY | PO: 412.00 USD | Price: 381.79 USD

New beginning as consumer pivot nears end...

CEO David Solomon appears to have weathered the storm, navigating Goldman Sachs-GS through a period of significant EPS stress due a slump in investment banking activity, asset write-downs, and drag from the consumer business. On consumer, the announced sale of point-of-sale lender GreenSky (expected close 1Q24) and the ongoing search to find a new partner for GM cards should bring the firm closer to the end of its consumer pivot. Apple card is the last piece of the puzzle. Fading noise tied to the consumer business should serve as a positive for the stock.

...and focus shifts back to the core franchise

The downside of the consumer pivot (although we fully concur with the strategy) is that investors are back to viewing Goldman largely as a capital markets play, with 60-70% of earnings derived from higher volatility (= lower P/E) investment banking and trading revenues. In order for the stock to sustainably re-rate higher, the Street will need to gain confidence that mgmt. can deliver on its mid-teens return target even in a so-so year. Near term, the stock needs investor optimism about a pick-up in M&A/IPO to translate into real activity (drive +ve EPS revisions) in order to build on 4Q23 gains.

Asset management credentials under-appreciated

Mgmt's success in fund raising, while also transitioning the asset management platform to a capital light model, should boost investor confidence in ROE resiliency and capital return potential. Despite its size (GS ranks among the top 5 active asset managers), our investor conversations indicate that the asset management business is an after-thought for most when evaluating the stock's risk/reward. The same is true of the private bank and Goldman's exposure to the highly sought after UHNW (ultra high net worth) segment. As context, US alternative asset managers trade at 18x/15x FY24/25e EPS vs. 12.5x/10.3x for GS.

Stock trading near higher end of P/TBV band

At 1.3x P/TBV the stock is trading above its median valuation range, but well below the 1.5-1.6x upper-bound (Exhibit 1). We see potential for stock re-rating to continue on the back of (1) rebounding investment banking activity (announcement of blockbuster M&A deals, IPOs); (2) visibility on the expense outlook relative to mgmt's ~60% efficiency ratio target; and (3) regulatory relief on Basel III Endgame rules. We revise 4Q23e EPS to \$4.36 (excludes ~\$1.50 impact due to FDIC special assessment) from \$5.07 to reflect IB/trading updates. Reiterate Buy rating and \$412 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	59.36	30.06	24.07	30.70	37.25
GAAP EPS	59.36	30.06	20.28	30.50	37.25
EPS Change (YoY)	140.3%	-49.4%	-19.9%	27.5%	21.4%
Consensus EPS (Bloomberg)			24.12	34.44	39.29
DPS	7.25	9.00	10.50	11.50	12.50
Valuation (Dec)					
P/E	6.4x	12.7x	15.9x	12.4x	10.2x
GAAP P/E	6.4x	12.7x	18.8x	12.5x	10.2x
Dividend Yield	1.9%	2.4%	2.8%	3.0%	3.3%

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04 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	43,847.1	43,912.5
2024E Rev (m)	46,073.5	46,771.5
2025E Rev (m)	48,848.1	49,593.3
2023E EPS	24.78	24.07

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Stock Data

Price	381.79 USD
Price Objective	412.00 USD
Date Established	14-Dec-2023
Investment Opinion	B-1-7
52-Week Range	289.36 USD - 389.14 USD
Mrkt Val / Shares Out (mn)	168,598 USD / 441.6
Free Float	99.5%
Average Daily Value	779.07 USD
BofA Ticker / Exchange	GS / NYS
Bloomberg / Reuters	GS US / GS.N
ROE (2023E)	7.8%
ESGMeter™	High

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iQprofileSM Goldman Sachs

Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$Millions)					
Net Revenues	58,982	44,650	43,912	46,772	49,593
Compensation & Benefits	(17,719)	(15,148)	(15,544)	(16,263)	(17,244)
% of Net Revenue	30.0	33.9	35.4	34.8	34.8
Non-Compensation Expenses	(14,219)	(16,016)	(18,943)	(16,533)	(16,244)
Net Income to Ordinary Shareholders	21,151	10,764	8,996	10,251	11,861

Balance Sheet Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$Millions)					
Total Assets	1,463,988	1,441,799	1,599,329	1,660,424	1,732,466
Net Assets	NA	NA	NA	NA	NA
Tangible Shareholders' Equity	94,520	98,103	97,151	95,013	90,650
BVPS (Stated Equity)	284.39	303.55	311.61	315.42	316.44
% growth	20.4	6.7	2.7	1.2	0.3

Trading (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$Millions)					
Trading Revenue	22,140	25,664	23,738	23,520	24,412
% growth	4.6	15.9	-7.5	-0.9	3.8
ROA (Net Trad Rev/Ave Bal Sht Asts)	1.52%	1.71%	1.53%	1.43%	1.44%
Value-at-Risk	NA	NA	NA	NA	NA
VaR as a % of Total Equity	NA	NA	NA	NA	NA

Investment Banking (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$Millions)					
Financial Advisory Revenues	5,653	4,704	3,139	3,435	3,607
Equity Underwriting Revenues	5,009	848	1,194	1,417	1,488
Debt Underwriting Revenues	3,503	1,808	1,820	1,942	2,039
Total Investment Banking Revenue	14,165	7,360	6,153	6,794	7,134
% growth	55.0	-48.0	-16.4	10.4	5.0

Performance Metrics (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$Millions)					
Operating Margin	45.9%	30.2%	21.5%	29.9%	32.5%
Pre-Tax Profit Margin	45.9%	30.2%	21.5%	30.0%	32.5%
Net Profit Margin	35.8%	24.1%	19.0%	21.9%	23.9%
Comp Expense/Revenue	30.0%	33.9%	35.4%	34.8%	34.8%
Non-Comp Expense / Revenue	24.1%	35.9%	43.1%	35.3%	32.8%
Net Revenue Growth	42.3%	-24.3%	-1.7%	6.5%	6.0%
Operating Expense Growth	10.2%	-2.4%	10.7%	-4.9%	2.1%
Operating Income / Average Assets	4.1%	3.0%	2.8%	2.8%	2.9%
Trading-Related Revenue / Net Revenue	37.5%	57.5%	54.1%	50.3%	49.2%

Company Sector

Securities Broker/Dealer

Company Description

The Goldman Sachs Group, Inc. (GS) is a global investment banking, securities, and investment management firm with leading positions in M&A, equity underwriting, and equity trading. The firm also generates significant revenues from its investing, lending, and FICC businesses, and is focused on growing its investment management business.

Investment Rationale

We rate GS Buy as we believe it is one of the best financial franchises (and among the strongest risk managers) globally at relatively discounted valuations on mid-teens ROE potential. Even discounting for the ROE volatility, we believe a 1.3-1.4x P/Book is a reasonable multiple for a stock where the lower bound on ROE is in the low double digits, we see secular growth opportunities, meaningful capital return potential and below average risk from cyclical headwinds.

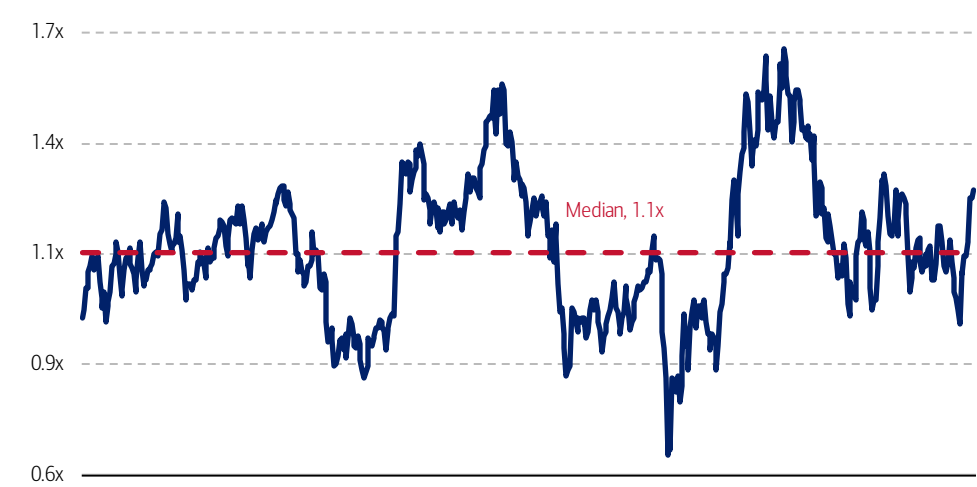
Stock Data

Average Daily Volume 2,040,576

Quarterly Earnings Estimates

	2022	2023
Q1	10.76A	9.28A
Q2	7.73A	4.32A
Q3	8.25A	6.11A
Q4	3.32A	4.36E

Exhibit 1: At 1.3x P/TBV the stock is trading above its median valuation range
GS P/TBV



Source: Bloomberg, Company filings

BofA GLOBAL RESEARCH



Price objective basis & risk

Goldman Sachs (GS)

Our \$412 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 13.5x/1.4x multiples, respectively, above the bank's 5 year pre pandemic median of 10.6x/1.2x given lower credit risk into a potential recession. Downside risks to our PO: weaker economy/capital markets, macro or geo-political issues, competition, structural pressures, tougher global regulation, and litigation. Upside risks: stronger capital markets activity.

Analyst Certification

I, Ebrahim H. Poonawala, 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.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett

UNDERPERFORM

	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

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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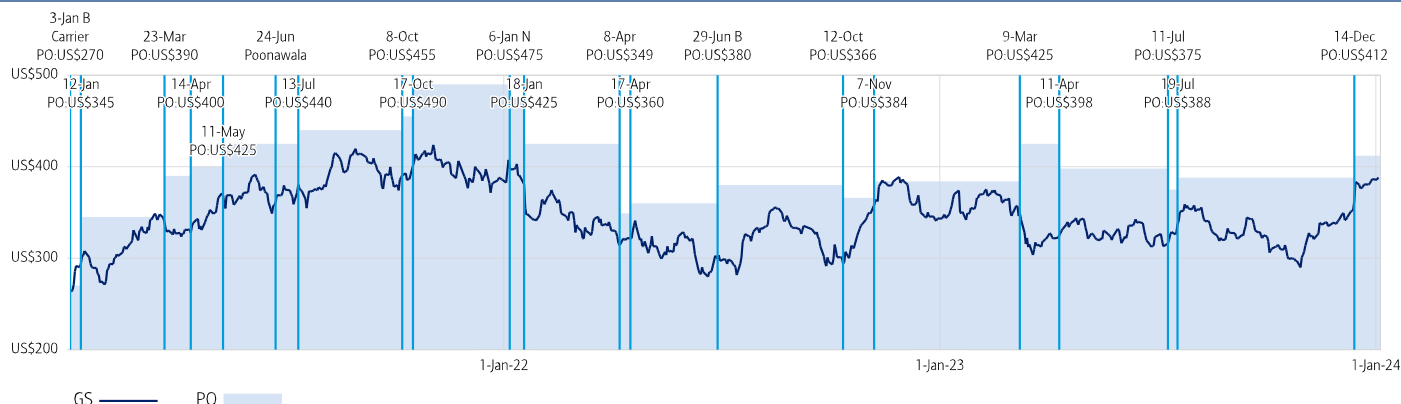
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Goldman Sachs (GS) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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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