

Moody's Corp.

4Q Preview: we are bullish on the issuance recovery, MA margins a debate into 4Q

Reiterate Rating: BUY | PO: 411.00 USD | Price: 381.28 USD

To the windows, to the (refi) wall

We expect MCO to report 4Q23 EPS the week of January 29th. We reiterate our Buy rating. Over the next year, we expect positive EPS revisions on improving debt supply driven by a mounting debt refunding wall and lower rates ([see our year-ahead](#) report). Its shares are up 25% since its 3Q release (S&P +12%), but we see room for further potential upside. Since 2011, MCO's annual stock price change has been ~70% correlated with y/y debt issuance.

Early, but very positive signs of pending issuance boom

Recent trends bode favorably for 4Q issuance and we think the trend persists into 2024. S&P's Oct./Nov.'s billed issuance were +47/26% y/y, vs. 3Q/1H23's +19/0%. BofA's US Credit Strategist's data points to good 4Q trends, 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%).

MA momentum & margins a debate area into 4Q

We think Moody's Analytics (MA) is underappreciated by investors and model +11% 2024 organic sales. It's a show-me story as the assets are not well understood and the strategy has changed over time. We're focused on MCO's GenAI investment plans. At its September MA Open House event, MCO expressed confidence in their mid-30% MA margin target despite GenAI investments. That said, we are lowering our 2024E EPS to \$12.06 partly on lower MA margins. We assume margins hit ~34% by 2027.

Our 4Q estimates are above the Street

Our \$2.47 4Q EPS is above \$2.32 consensus. Our outlook reflects 14.2% sales growth and 44.2% EBITDA margins (+725bp). The Street is modeling sales +15.1% and 44.1% margins. We model MIS/MA sales +17/12%. (MIS = Moody's Investor Service).

We are 8% above the Street for 2024 EPS

We expect 2024's guide to reflect an issuance rebound, but with some conservatism given limited visibility. We're well above consensus at \$12.06 EPS on 12.6% sales growth and 46.6% EBITDA margins. The Street's at \$11.15 with sales +10% and 46.0% margins. We are above the Street on MIS (ie. ratings) revenues.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	12.29	8.57	10.20	12.06	13.60
GAAP EPS	11.79	7.44	9.03	11.20	12.74
EPS Change (YoY)	21.1%	-30.3%	19.0%	18.2%	12.8%
Consensus EPS (Bloomberg)			10.06	11.21	12.83
DPS	2.56	2.82	3.10	3.41	3.75
Valuation (Dec)					
P/E	31.0x	44.5x	37.4x	31.6x	28.0x
GAAP P/E	32.3x	51.2x	42.2x	34.0x	29.9x
Dividend Yield	0.7%	0.7%	0.8%	0.9%	1.0%
EV / EBITDA*	24.7x	32.9x	29.2x	24.6x	22.9x
Free Cash Flow Yield*	2.7%	1.7%	2.5%	3.6%	3.7%

* 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)	5,938.4	5,909.6
2024E Rev (m)	6,717.0	6,637.5
2025E Rev (m)	7,005.2	6,920.4
2024E EPS	12.47	12.06
2025E EPS	14.09	13.60

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Stock Data

Price	381.28 USD
Price Objective	411.00 USD
Date Established	23-Oct-2023
Investment Opinion	B-1-7
52-Week Range	278.23 USD - 396.91 USD
Mrkt Val (mn) / Shares Out (mn)	69,774 USD / 183.0
Free Float	85.9%
Average Daily Value (mn)	290.79 USD
BofA Ticker / Exchange	MCO / NYS
Bloomberg / Reuters	MCO US / MCO.N
ROE (2023E)	61.3%
Net Dbt to Eqty (Dec-2022A)	209.0%
ESGMeter TM	Medium

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"](#).

(1) S&P Global Ratings' Billed Issuance includes leveraged loans, and excludes issuance billed under the frequent issuer program, as well as items that don't impact transaction revenue including unrated debt and most international public finance

iQprofileSM Moody's Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	20.4%	12.2%	15.3%	17.6%	18.8%
Return on Equity	98.7%	56.4%	61.3%	55.9%	50.2%
Operating Margin	45.7%	34.4%	36.8%	40.7%	42.2%
Free Cash Flow	1,866	1,191	1,750	2,524	2,571

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.9x	0.9x	1.1x	1.3x	1.2x
Asset Replacement Ratio	0.5x	0.9x	0.8x	0.8x	0.8x
Tax Rate	19.6%	21.9%	15.6%	19.5%	18.0%
Net Debt-to-Equity Ratio	192.1%	209.0%	144.0%	91.6%	58.1%
Interest Cover	16.6x	8.2x	8.6x	10.8x	14.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,218	5,468	5,910	6,637	6,920
% Change	15.8%	-12.1%	8.1%	12.3%	4.3%
Gross Profit	4,581	3,855	4,146	4,631	4,817
% Change	17.6%	-15.8%	7.5%	11.7%	4.0%
EBITDA	3,101	2,328	2,617	3,104	3,348
% Change	16.3%	-24.9%	12.4%	18.6%	7.8%
Net Interest & Other Income	(89)	(123)	(204)	(178)	(134)
Net Income (Adjusted)	2,309	1,582	1,875	2,187	2,441
% Change	20.2%	-31.5%	18.5%	16.6%	11.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,214	1,374	1,661	2,032	2,287
Depreciation & Amortization	257	331	367	401	423
Change in Working Capital	(400)	(427)	(194)	(95)	(107)
Deferred Taxation Charge	(218)	48	(10)	0	0
Other Adjustments, Net	152	148	218	516	310
Capital Expenditure	(139)	(283)	(294)	(330)	(343)
Free Cash Flow	1,866	1,191	1,750	2,524	2,571
% Change	-8.7%	-36.2%	46.9%	44.2%	1.9%
Share / Issue Repurchase	(795)	(1,044)	(524)	(975)	(977)
Cost of Dividends Paid	(463)	(515)	(579)	(617)	(673)
Change in Debt	(31)	(10)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,811	1,769	1,904	2,335	2,556
Trade Receivables	1,720	1,652	1,785	2,005	2,129
Other Current Assets	480	673	735	835	906
Property, Plant & Equipment	347	502	625	743	850
Other Non-Current Assets	10,322	9,753	9,584	9,559	9,467
Total Assets	14,680	14,349	14,634	15,477	15,908
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,496	2,375	2,573	2,841	2,977
Long-Term Debt	7,413	7,389	6,850	6,354	5,654
Other Non-Current Liabilities	1,855	1,896	1,776	1,896	1,943
Total Liabilities	11,764	11,660	11,200	11,091	10,573
Total Equity	2,916	2,689	3,434	4,386	5,334
Total Equity & Liabilities	14,680	14,349	14,634	15,477	15,908

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

Company Sector

Business Services

Company Description

Moody's is a global integrated risk assessment business that provides credit rating opinions, analytical solutions and insights, Investor Services segment (49% of 2022 sales) provides credit ratings and Moody's Analytics (51%) offers risk management data and information, research and insights, and decision solutions.

Investment Rationale

Moody's has high exposure to the likely credit issuance recovery via its ratings business (49% of sales), but also a very resilient Analytics business. Moody's Analytics offers risk-management related assessments and data, research, and decision solutions. We expect higher issuance, demand for its risk-management tools, and material cost cuts to drive outsized EPS growth, positive earnings revisions, and multiple expansion.

Stock Data

Average Daily Volume 749,289

Quarterly Earnings Estimates

	2022	2023
Q1	2.89A	2.99A
Q2	2.22A	2.30A
Q3	1.85A	2.43A
Q4	1.60A	2.47E

Price objective basis & risk

Moody's Corp. (MCO)

Our \$411 price objective is based on 33x 2024E P/E, a 8x premium to its current multiple. This is 8.5x above Information Services peers. We think a premium to peers is warranted given higher earnings growth.

Downside risks to our price objective are: 1) issuance recovery is weaker than expected due to higher rates, 2) an economic downturn leads to further issuance declines and reduces demand for Moody's Analytics' tools, and 3) adoption of Moody's Analytics' products is slower than expected.

Upside risks to our price objective are: 1) faster than expected credit cycle recovery, 2) larger than expected margin uplift, 3) stronger adoption of new products, 4) private credit market embraces ratings in a more material way, and 5) higher than expected 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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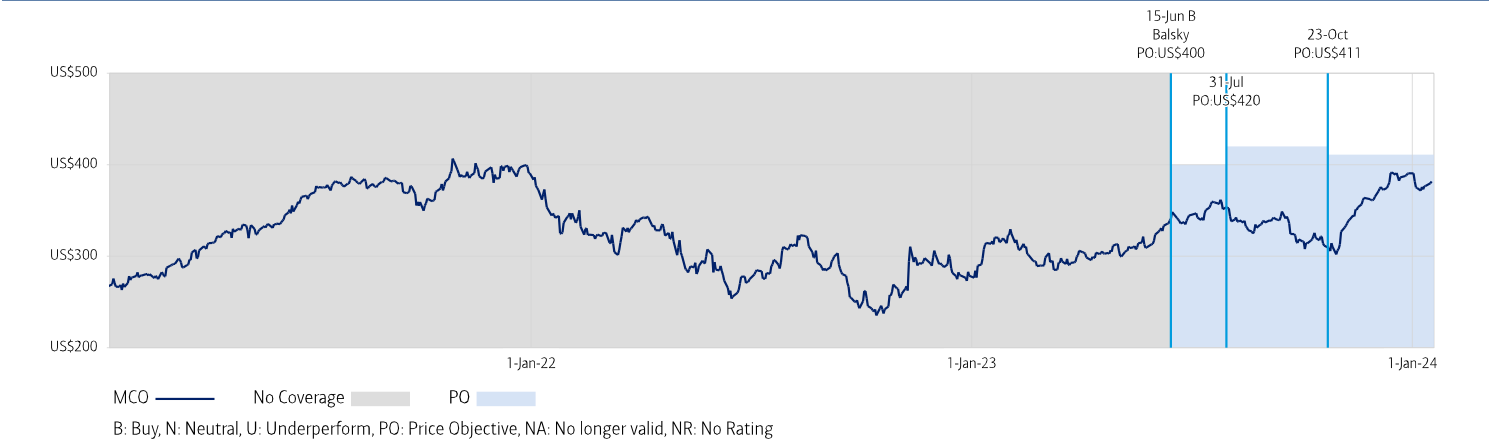
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Moody's Corp. (MCO) Price Chart



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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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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