

MSCI Inc

4Q23 EPS preview: we think ESG headwinds persist into 2024

Maintain Rating: UNDERPERFORM | PO: 460.00 USD | Price: 549.29 USD

We maintain Underperform on ESG slowing & valuation

MSCI will report 4Q23 EPS on January 30th before the open. We maintain our Underperform rating. We think there's limited upside to the stocks' already lofty valuation (37x 2024 P/E) as ESG revenues slow and the pace of investment likely ramps as Index revenues accelerate with global markets. Based on feedback during the quarter, we think that a number of hedge fund investors may be short this name into the print. These short investors are likely focused on ESG growth, margins, as well as Index subscription net new sales (which was (12)% in 3Q23). Long-only investors seem to be bullish on long-term secular drivers (shift to passive).

We continue to focus on ESG's deceleration

We're focused on key ESG subscription metrics, including Run Rate growth, net new growth, and retention. Slowing ESG growth over the last few quarters has been a concern. We think the deceleration persists into 2024, particularly in the Americas region. We forecast 18% 4Q ESG organic sales growth vs. 38/29/20% in 1Q/2Q/3Q.

Market recovery helps sales, but we are wary of spending

The recovery in global markets should provide a boost to MSCI's Index asset-based fees (38% of 4Q22 sales). In 4Q, AUM in ETFs linked to MSCI Equity Indexes were up about 16% y/y (vs. 14% in 3Q). However, we are concerned that bulls overestimate the benefit to EPS as the company will likely reinvest more as its shifts to its upturn from its downturn cost playbook and invests in GenAI. We model 2024 EBITDA margins contracting 25bps to 59.2%, which also factors in margin dilution from the Burgiss acquisition.

Our 4Q EPS is 9c below the Street on lower margins

Our \$3.21 4Q EPS is below \$3.30 consensus. Our outlook reflects 21.4% organic sales growth and 170bp of EBITDA margin contraction to 57.1%. The Street is modeling 16% organic sales and 57.9% margins. Burgiss begins flowing through the P&L this quarter.

We are concerned about downside risk to 2024 margins

We model \$14.76 2024 EPS on 15% organic sales growth and 59.2% EBITDA margins. We see risk to the downside for 2024 as we may be underestimating the pace that MSCI reinvests in its business as the Index business improves.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.95	11.45	13.06	14.76	17.07
GAAP EPS	8.70	10.72	14.12	14.06	16.37
EPS Change (YoY)	27.1%	15.1%	14.1%	13.0%	15.7%
Consensus EPS (Bloomberg)			13.12	14.72	16.89
DPS	3.62	4.59	5.66	6.19	6.81
Valuation (Dec)					
P/E	55.2x	48.0x	42.1x	37.2x	32.2x
GAAP P/E	63.1x	51.2x	38.9x	39.1x	33.6x
Dividend Yield	0.7%	0.8%	1.0%	1.1%	1.2%
EV / EBITDA*	39.9x	35.9x	32.0x	28.7x	25.7x
Free Cash Flow Yield*	2.1%	2.5%	2.7%	3.0%	3.5%

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

29 January 2024

Equity

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Stock Data

Price	549.29 USD
Price Objective	460.00 USD
Date Established	31-Oct-2023
Investment Opinion	B-3-7
52-Week Range	451.55 USD - 573.32 USD
Mrkt Val (mn) / Shares Out (mn)	43,444 USD / 79.1
Free Float	96.9%
Average Daily Value (mn)	228.19 USD
BofA Ticker / Exchange	MSCI / NYS
Bloomberg / Reuters	MSCI US / MSCI.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 29 January 2024 06:02AM EST

iQprofileSM MSCI Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.4%	25.1%	33.0%	38.8%	43.5%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	52.5%	53.7%	54.2%	54.0%	55.6%
Free Cash Flow	923	1,082	1,177	1,310	1,511

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	1.2x	1.2x	1.2x	1.1x
Asset Replacement Ratio	-0.3x	-0.2x	-0.3x	-0.3x	-0.4x
Tax Rate	15.4%	16.6%	16.3%	18.0%	18.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	6.8x	7.6x	9.2x	9.4x	11.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,044	2,249	2,509	2,806	3,092
% Change	20.5%	10.0%	11.6%	11.9%	10.2%
Gross Profit	1,685	1,844	2,065	2,303	2,529
% Change	20.0%	9.5%	12.0%	11.5%	9.8%
EBITDA	1,197	1,330	1,492	1,665	1,857
% Change	23.2%	11.1%	12.2%	11.6%	11.6%
Net Interest & Other Income	(215)	(164)	(12)	(162)	(147)
Net Income (Adjusted)	830	930	1,043	1,164	1,344
% Change	25.5%	12.0%	12.1%	11.7%	15.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	726	871	1,127	1,109	1,289
Depreciation & Amortization	29	27	23	27	29
Change in Working Capital	60	(19)	(10)	(15)	15
Deferred Taxation Charge	(111)	36	(31)	0	0
Other Adjustments, Net	232	181	94	219	213
Capital Expenditure	(14)	(14)	(26)	(31)	(34)
Free Cash Flow	923	1,082	1,177	1,310	1,511
% Change	16.9%	17.3%	8.8%	11.3%	15.4%
Share / Issue Repurchase	(198)	(1,398)	(554)	(350)	(800)
Cost of Dividends Paid	(302)	(373)	(452)	(489)	(536)
Change in Debt	752	348	43	(250)	(100)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,421	994	445	594	590
Trade Receivables	665	663	740	839	925
Other Current Assets	57	91	109	125	138
Property, Plant & Equipment	67	54	58	61	67
Other Non-Current Assets	3,297	3,196	3,173	3,135	3,118
Total Assets	5,507	4,998	4,524	4,755	4,837
Short-Term Debt	0	9	0	0	0
Other Current Liabilities	1,251	1,242	1,375	1,498	1,623
Long-Term Debt	4,161	4,503	4,559	4,309	4,209
Other Non-Current Liabilities	258	252	221	232	251
Total Liabilities	5,670	6,005	6,155	6,039	6,083
Total Equity	(163)	(1,008)	(1,631)	(1,283)	(1,246)
Total Equity & Liabilities	5,507	4,998	4,524	4,755	4,837

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

Company Sector

Business Services

Company Description

MSCI provides decision support tools and services to help clients improve transparency in the investment process. Their products and services include indexes, analytical tools, data, real estate benchmarks and ESG research.

Investment Rationale

We view MSCI as a relative underperformer and think other market data companies offer a more attractive risk/reward. MSCI has benefited from a first mover advantage in ESG, but that sales engine is slowing and data competition is escalating. This makes it hard to argue for valuation upside and we think shares already reflects its compounding double-digit EPS growth, 97% recurring sales, and sticky customer relationships.

Stock Data

Average Daily Volume 423,498

Quarterly Earnings Estimates

	2022	2023
Q1	2.98A	3.14A
Q2	2.78A	3.26A
Q3	2.85A	3.45A
Q4	2.84A	3.21E

Price objective basis & risk

MSCI Inc (MSCI)

Our \$460 price objective is based on 31.5x 2024E P/E (vs. 35.5x prior), which assumes a 1x discount from its current multiple, but ahead of information service peers by 7.5x. We think the premium to peers is warranted given high recurring revenues (97%), customer stickiness in its index business, and the ongoing shift from active to passive investing.

Upside risks to our price objective are: 1) ESG revenues slow faster than expected amid increased competition, growth off of a higher base, and political pressures, 2) global market weakness and/or an economic downturn, 3) slower than expected adoption of its risk-management tools

Downside risks to our price objective are: 1) accelerated shift in active to passive, 2) a re-acceleration of ESG revenues, 3) higher than expected leverage on double-digit sales growth, and 4) higher than expected share buybacks

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

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	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
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	Thomson Reuters	TRI	TRI US	Heather Balsky
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	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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MSCI (MSCI) 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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Buy	≥ 10%	≤ 70%
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^{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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