

Moody's Corporation (NASDAQ: MCO)

Sector: Financial Services

MOODY'S

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$221.21	\$196.81	\$222.85	\$129.26	30.77	\$37.52B	0.96%	1.38

Business Description:

Moody's Corporation is an independent provider of credit ratings, economic opinions, and related financial information. The Company has two main operating segments: Moody's Investor Services (MIS) and Moody's Analytics (MA). MIS provides traditional credit ratings and market reporting while MA provides tailored client solutions driven by financial data analysis. MIS rates \$74+ trillion of global debts. This portfolio includes non-financial corporates, financial institutions, public finance, infrastructure and project issuers, structure finance deals and sovereigns (countries).

Industry Trends:

Collectively, S&P Global, Moody's, and Fitch account for 94% of all rating's revenue: Moody's dominates the corporate finance, financial institutions, and sovereign ratings. Entrance of new market participants does not pose a threat to Moody's position as these players are specialized in certain subsectors. Specific to Moody's credit portfolio, negative outlooks have trumped positive outlooks this year. This can be attributed to the global exposure of issuers affected by market volatility and geopolitical uncertainties.

Investment Thesis:

The ratings industry is a pivotal backbone to the world's economy: the global debt market is significantly larger than the global equity market. The oligopolistic nature of the industry secures Moody's position as a dominant participant. The successful proliferation of Moody's Analytics division has diversified the company and provided strong stable growth. The increasing M&A activity targeting financial information sources will provide Moody's with unbeatable reach and distribution power. Additionally, the health of the U.S economy and low global interest rate environment further bolster optimism for Moody's continued growth in the near term.

Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 3.0%

Margin of Safety: 12.39%

5-Year Share Price Performance vs. S&P 500:



Competitive Advantage and Analysis

The market interprets a Moody's credit rating and opinion as a signal of confidence. If a creditor fails to earn a Moody's rating, the issuer can expect significantly higher borrowing costs. This, coupled with the legal requirements on some issuers to include a Moody's rating on their financial reports gives the firm competitive leverage. As previously mentioned, Moody's Analytics also provides diversified services to the company's offering portfolio. This will offset potentially negative performance in the ratings industry and thus ensure overall company growth.

Risks:

The most relevant risks and considerations for Moody's include, but are not limited to:

- Further cuts to global growth expectations driven by falling benchmark interest rates
- Geopolitical uncertainty weighing on investor confidence and business activity
- Lower volume of M&A and CAPEX spending despite increasing deal sizes
- Highly unlikely, but potential anti-trust and stricter regulation of industry oligopoly

Corporate Social Responsibility Highlights:

- \$200 billion issuance of "Green Bond" program to fund sustainable infrastructure projects
- \$6.8 million in total social investment, including \$4.2 million in foundation grants and \$1.1 million in charitable donations

Report Prepared By:

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Sources: Bloomberg, Thomson Reuters, Moody's