

Goldman Sachs (GS)

\$183.42 (As of 04/30/20)

Price Target (6-12 Months): **\$159.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

Summary

Shares of Goldman have underperformed the industry in the last six months. The company has a decent earnings surprise history, outpacing the Zacks Consensus Estimate in two of the trailing four quarters. The first-quarter results reflected lower revenues, higher expenses and provisions. Legal issues remain a headwind. Further, high dependence on overseas revenues and volatile client-activity might impede Goldman's top-line growth. Notably, the company has temporarily suspended share buybacks through the second quarter, following the "unprecedented challenge" from the coronavirus pandemic. Though Goldman's solid position in worldwide announced and completed M&As will keep strengthening the business, current economic environment is likely to keep revenues under pressure. Moreover, a stretched valuation is a concern.

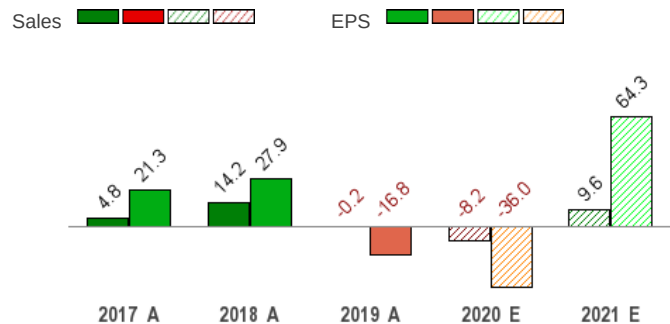
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.46 - \$130.85
20 Day Average Volume (sh)	3,880,699
Market Cap	\$65.3 B
YTD Price Change	-17.4%
Beta	1.43
Dividend / Div Yld	\$5.00 / 2.6%
Industry	Financial - Investment Bank
Zacks Industry Rank	Bottom 32% (173 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.9%
Last Sales Surprise	29.5%
EPS F1 Est- 4 week change	-40.2%
Expected Report Date	07/21/2020
Earnings ESP	0.0%
P/E TTM	10.3
P/E F1	13.6
PEG F1	0.7
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,721 E	9,439 E	9,086 E	9,490 E	36,765 E
2020	8,743 A	8,545 E	8,267 E	8,787 E	33,533 E
2019	8,807 A	9,461 A	8,323 A	9,955 A	36,546 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.77 E	\$5.07 E	\$5.44 E	\$6.18 E	\$22.12 E
2020	\$3.11 A	\$2.77 E	\$3.52 E	\$4.29 E	\$13.46 E
2019	\$5.71 A	\$5.81 A	\$4.79 A	\$4.69 A	\$21.03 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/30/2020. The reports text is as of 05/01/2020.

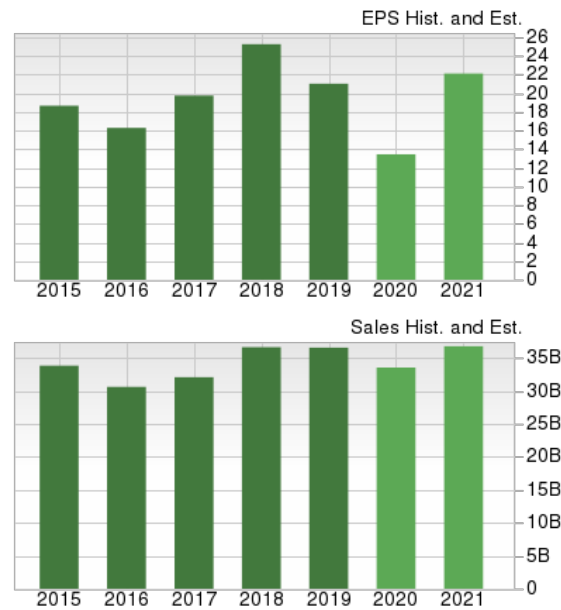
Overview

Founded in 1869, The Goldman Sachs Group, Inc. is a leading global financial holding company providing investment banking, securities and investment management services to a diversified client base. The company is headquartered in New York, with offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers globally. As of Dec 31, 2019, the company had a total of 38,300 employees.

Beginning with 2019 fourth quarter results, Goldman announced new business segments. The company's new 4 reporting segments are as follows:

- The Investment Banking segment (contributed 21% of the 2019 revenues) comprises the Financial Advisory and Underwriting. Further, results from lending to corporate clients are included.
- The Global Markets segment (40%) consists of Fixed Income, Currency and Commodities, which include client-execution activities related to making markets in credit products, interest rate products, mortgages, currencies and commodities. Equities include client execution activities related to making markets in equities, commissions and fees, and the company's securities services business. Also, it includes results from providing warehouse lending and structured financing to institutional clients and results from transactions in derivatives associated with client advisory and underwriting assignments.
- The Consumer & Wealth Management segment (14%) includes management and other fees, incentive fees and results from deposit-taking activities related to wealth management business. Further, results from providing loans through the company's private bank, providing unsecured loans and accepting deposits through the bank's digital platform, Marcus by Goldman Sachs, and serving credit cards are included.
- The Asset Management division (25%) comprises management and other fees. Further, this division includes incentive fees related to asset management and merchant banking funds, as well as transaction revenues. Further, results from investments in equity securities and lending activities, including investments in debt securities and loans backed by real estate are included.

In 2019, Goldman completed the acquisition of United Capital Financial Partners.



Reasons To Sell:

- ▼ Global Markets division of Goldman mainly constitutes of Fixed Income, Currency and Commodities Client Execution (FICC) and Equities revenues and recorded a three-year CAGR of 9.6% in 2019, with the trend continuing in first-quarter 2020. Though the division recorded growth, a challenging environment depicting volatile client-activity levels, along with coronavirus concerns affected the performance of this division to some extent. Therefore, the future performance of this volatility-driven division depends on market developments and client volumes.
- ▼ Goldman is a geographically diversified company with presence in almost all the major markets in the world. The company has high dependence on overseas revenues as reflected in the last few years. A number of risks stemming from the regulatory and political environment, foreign exchange fluctuations and performance of regional economy may hurt its top line.
- ▼ Goldman continues to face many investigations and lawsuits from investors and regulators. Though the company resolved certain litigations related to the sale of risky mortgage-backed securities, many of the cases are yet to be resolved. All these are expected to lead to increased expenses and litigation provisions in the near term. Goldman has been entangled in the heightened scandal related to the multibillion-dollar 1Malaysia Development Bhd (1MDB), which is a major concern.
- ▼ Shares of Goldman have underperformed the industry in the last six months. With this unfavorable trend, the company's current-year earnings estimate has been revised 15.4% downward over the last 30 days. Also, the stock seems overvalued as its price-to-earnings (F1) and PEG ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Geopolitical concerns and volatile client-activity levels may hinder top-line growth of Goldman. Further, legal hassles and higher dependence on overseas revenues remain other headwinds.

Risks

- The key source of Goldman's earnings stability is its business diversification. Within traditional banking, a diversified product portfolio has better chances of sustaining growth than many other banks, which have exited some of these areas. Notably, Goldman has been undertaking initiatives to boost the GS Bank's business with its acquisition of the online deposit platform of GE Capital Bank in April 2016. It also launched a digital consumer lending platform — *Marcus by Goldman Sachs*. Additionally, the company is likely to benefit from its exposure to the fast growing exchange-traded funds (ETF) market.
 - Investment banking revenues witnessed a three-year (2017-2019) CAGR of 1%, with some annual volatility providing decent support to Goldman's top-line growth. The uptrend continued in the first quarter as well. Moreover, M&A activities were strong in 2018 and 2019, with the execution of many large transactions. Therefore, Goldman's solid position in worldwide announced and completed M&As will likely give it further edge over its peers.
 - Goldman has benefited over the past few years from its successful expense-reduction initiatives. Though expenses have been volatile for the past few years, the figure declined significantly in 2016, but recorded three-year CAGR of 9% in 2019, due to higher compensation and litigation expenses. The uptrend continued in first-quarter 2020 as well. Nevertheless, the company completed an expense initiative and generated nearly \$900 million of run-rate savings. The company is focused on improving efficiency, while maintaining strong franchise and investing in new opportunities. Therefore, continuation of expense management will aid bottom-line expansion in the coming years.
 - Amid the coronavirus crisis and its impact on economy, the company holds a corporate debt level of \$263 billion as of Mar 31, 2020, which has witnessed a decline in the past few quarters. Further, its debt-capital ratio, currently 71.07, though above the industry's average of 29.33, has been declining. Therefore, the company's earnings stability and strong capital position indicate lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
 - Backed by a solid capital position, Goldman has consistently enhanced shareholders' value with steady capital-deployment activities. The company's approved 2019 capital plan includes up to \$7 billion in repurchases and \$1.8 billion in total common stock dividends beginning third-quarter 2019 through second-quarter 2020. Following the approval, the company increased its quarterly dividend to \$1.25 in July 2019. This not only reflects the company's commitment to return value to the shareholders but also its strong position to endure severe economic downturns. Also, the company's payout ratio compares favorably with the broader industry reflecting such dividend hikes sustainable in the future. Notably, the company has temporarily suspended share buybacks through the second quarter of 2020, following the "unprecedented challenge" from the coronavirus pandemic.
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Last Earnings Report

Goldman Q1 Earnings Top Estimates, Provisions Up

Goldman Sachs reported first-quarter 2020 earnings per share of \$3.11, surpassing the Zacks Consensus Estimate of \$2.83. However, the bottom-line figure compares unfavorably with the earnings of \$5.71 per share recorded in the year-earlier quarter.

With the market volatility flaring up on the coronavirus scare, the bank's results were aided by strong underwriting business and higher Fixed Income, Currency and Commodities Client Execution (FICC) revenues during the reported quarter. Moreover, corporate lending revenues provided some relief. In addition, wealth management and consumer banking business reported an upswing, reflecting rise in deposit balances and credit card loans.

The investment bank, nevertheless, disappointed with the rise in operating expenses and provisions. Additionally, lower financial advisory revenues, due to the decline in industry-wide completed mergers and acquisitions transactions, played spoilsport.

Notably, provisions surged due to continued pressure in the energy sector and the economic impact of the coronavirus outbreak. Further, provisions included growth in corporate loans and credit card loans, along with impact of accounting for credit losses under the CECL standard.

Revenues Down, Expenses Up

Goldman's net revenues were down 1% year over year to \$8.74 billion in the reported quarter. The revenue figure, however, beat the Zacks Consensus Estimate of \$6.75 billion.

Quarterly revenues, as per business segments, are as follows:

The **Global Markets** division recorded revenues of \$5.2 billion, up 28% year over year. This upside indicates higher net revenues in Fixed Income, Currency and Commodities Client Execution (up 33% year over year), driven by solid revenues from currencies, credit products, interest rate products and commodities, partly offset by lower revenues in mortgages. Also, FICC financing was on the upside.

Furthermore, higher equities revenues (up 22%) were recorded, backed by elevated equities intermediation and financing.

The **Asset Management** division recorded negative revenues of \$96 million compared with the positive revenues of \$1.8 billion in the prior-year quarter. This decline mainly resulted from significant net losses in lending and debt investments along with equity investments, partially mitigated by higher incentive and management and other fees.

The **Consumer and Wealth Management** division's revenues of \$1.5 billion came in 21% higher year over year during the March-end quarter. Increased revenues from wealth management (up 18%) and consumer banking (up 39%) resulted in this upsurge.

The **Investment Banking** division generated revenues of \$2.2 billion, up 25% year over year. Results suggest higher underwriting revenues (up 29%), aided by elevated equity and debt underwriting revenues. Also, corporate lending surged significantly on a year-over-year basis. However, decreased financial advisory revenues (down 11%), was on the downside.

Total operating expenses flared up around 10% year over year to \$6.5 billion. Rise in almost all components of expenses resulted in this upswing.

Notably, net provisions for litigation and regulatory proceedings of \$184 million were recorded.

Provision for credit losses was \$937 million in the first quarter, significantly up from the prior-year quarter figure of \$224 million.

Strong Capital Position

Goldman displayed a robust capital position in the reported quarter. As of Mar 31, 2020, the company's Common Equity Tier 1 ratio was 12.3% under the Basel III Advanced Approach, highlighting valid transitional provisions. The figure was down from the prior quarter's 13.7%.

The company's supplementary leverage ratio, on a fully phased-in basis, was 5.9% at the end of the January-March quarter, down from the prior-quarter figure of 6.2%.

Return on average common shareholders' equity, on an annualized basis, was 5.7% in the quarter.

Capital-Deployment Update

During first-quarter 2020, the company repurchased 8.2 million shares of its common stock at an average price per share of \$236.35 and a total cost of \$1.93 billion, and paid around \$449 million of common stock dividends.

Outlook

Given the current challenges faced by a variety of industries, Goldman expects client demand to evolve for their assistance, bolstering balance sheets, hedging market and financial risks and capturing strategic opportunities.

Going forward, management expects to see a more modest level of growth in both Marcus unsecured loans and Apple Card with managing the risk profile and reducing the pace of origination during the current period of market and economic dislocation.

Quarter Ending 03/2020

Report Date	Apr 15, 2020
Sales Surprise	29.52%
EPS Surprise	9.89%
Quarterly EPS	3.11
Annual EPS (TTM)	18.40

Given the challenging operating environment, management is re-examining all its forward spending and investment plans to ensure the best use of resources. Consistent with the historical focus on expense discipline and the emphasis on cost control at Investor Day, management will assess the timing, magnitude and pace of certain expenses and investments. Importantly, it continues to pursue medium-term efficiency target. To that end, management expects to realize the effect of planned reductions in non-compensation expenses more significantly through the second half of this year.

For the next few years, Goldman expects tax rate to be 21%.

Medium-Term Financial Targets

Return on Equity is expected to be greater than 13%, while return on tangible equity to be more than 14%. Efficiency ratio is expected to be around 60%. CET1 ratio is expected in the range of 13-13.5%.

Growing and spending business growth worth \$2-\$3 billion. New initiatives spend worth \$1-2 billion. Funding optimization is expected to be \$1 billion. Expense efficiency savings expected to be \$1.3 billion.

Management expects transaction banking revenues worth \$1 billion and deposits worth \$50 billion in more than five years horizon.

Recent News

Goldman Gets Nod for Majority Stake in China JV - Mar 27, 2020

Goldman has received nod from the China Securities Regulatory Commission to increase stake in its mainland securities joint venture (JV) to 51%. The company had filed for approval of majority interest in the JV last year.

Goldman will be raising its stake in Goldman Sachs Gao Hua Securities to 51% from 33% at present. The company, which controls day-to-day operations of the JV, had set up with Beijing Gao Hua Securities in 2004. The JV provides investment banking services including equities and bond underwriting, as well as M&A advisory.

Also, Todd Leland, co-president of Goldman for Asia-Pacific, excluding Japan, said "We will be seeking to move towards 100 per cent ownership at the earliest opportunity." Early this year, the company had announced plans to double its workforce in China over the next five years.

Dividend Update

On Apr 14, Goldman's board of directors announced a quarterly dividend of \$1.25 per share. The dividend will be paid on Jun 29, to shareholders of record as of Jun 1, 2020.

Valuation

Goldman's shares are down 19% in the year-to-date period and 9.18% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.2% and 22.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 13.6% and 17.5%, respectively.

The S&P 500 Index is down 8.8% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 11.89X forward 12 months earnings, which compares to 12.86X for the Zacks sub-industry, 15.56X for the Zacks sector and 20.81X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.48X and as low as 5.49X, with a 5-year median of 9.78X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$159 price target reflects 10.11X forward earnings.

The table below shows summary valuation data for GS

Valuation Multiples - GS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.89	12.86	15.56	20.81
	5-Year High	15.48	15.31	16.17	20.81
	5-Year Low	5.49	6.04	11.19	15.19
	5-Year Median	9.78	11.34	13.93	17.44
P/TB TTM	Current	0.75	1.91	2.57	11.08
	5-Year High	1.51	3.33	4	12.78
	5-Year Low	0.57	1.4	2	6.02
	5-Year Median	1.12	2.39	3.47	9.17
P/S F12M	Current	1.89	3.49	4.96	3.3
	5-Year High	3.24	4.53	6.69	3.44
	5-Year Low	1.24	2.75	4.96	2.54
	5-Year Median	2.31	3.55	6.05	3.01

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Evercore Inc (EVR)	Neutral	5
Jefferies Financial Group Inc. (JEF)	Neutral	3
Morgan Stanley (MS)	Neutral	4
Bank of America Corporation (BAC)	Underperform	5
Citigroup Inc. (C)	Underperform	3
JPMorgan Chase & Co. (JPM)	Underperform	5
KeyCorp (KEY)	Underperform	3
Moelis & Company (MC)	Underperform	5

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	GS	X Industry	S&P 500	EVR	JPM	MS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	5	5	4
VGM Score	C	-	-	B	F	F
Market Cap	65.35 B	503.73 M	20.82 B	2.19 B	298.13 B	64.27 B
# of Analysts	7	2	14	2	9	7
Dividend Yield	2.63%	0.00%	2.07%	4.31%	3.68%	3.43%
Value Score	C	-	-	B	F	F
Cash/Price	5.91	0.72	0.06	0.34	4.21	4.63
EV/EBITDA	-4.68	3.23	12.12	4.20	-7.59	-0.83
PEG Ratio	0.74	1.01	2.51	NA	3.82	1.09
Price/Book (P/B)	0.71	1.45	2.74	1.87	1.29	0.89
Price/Cash Flow (P/CF)	6.62	8.38	11.23	5.15	6.97	5.82
P/E (F1)	13.63	13.11	19.26	24.17	19.10	10.65
Price/Sales (P/S)	1.23	1.21	2.16	1.08	2.14	1.24
Earnings Yield	7.08%	7.16%	5.03%	4.13%	5.23%	9.39%
Debt/Equity	2.46	0.50	0.72	0.53	1.29	2.60
Cash Flow (\$/share)	28.72	2.30	7.01	10.44	14.04	7.01
Growth Score	C	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	7.81%	14.18%	10.88%	28.77%	15.63%	20.05%
Proj. EPS Growth (F1/F0)	-36.00%	-24.85%	-6.94%	-71.10%	-52.21%	-23.06%
Curr. Cash Flow Growth	-13.72%	4.82%	5.92%	-15.37%	9.35%	9.18%
Hist. Cash Flow Growth (3-5 yrs)	0.72%	13.46%	8.55%	23.38%	10.67%	13.46%
Current Ratio	1.27	1.28	1.23	2.53	0.89	0.75
Debt/Capital	71.07%	29.33%	43.90%	34.47%	54.97%	69.96%
Net Margin	14.04%	11.71%	11.15%	12.96%	21.61%	16.01%
Return on Equity	8.96%	14.05%	16.47%	33.08%	12.52%	10.77%
Sales/Assets	0.05	0.29	0.54	0.90	0.05	0.06
Proj. Sales Growth (F1/F0)	-8.24%	-3.57%	-1.52%	-30.71%	-4.67%	-8.83%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	1.61%	1.91%	2.91%	4.55%	2.70%	1.64%
1 Week Price Chg	-3.54%	-0.23%	-1.74%	-13.69%	-4.70%	-2.87%
4 Week Price Chg	30.79%	16.95%	21.33%	17.91%	16.00%	29.00%
12 Week Price Chg	-22.21%	-22.43%	-16.28%	-32.41%	-28.88%	-25.82%
52 Week Price Chg	-7.18%	-19.16%	-7.57%	-43.25%	-15.02%	-14.25%
20 Day Average Volume	3,880,699	72,280	2,658,107	620,356	24,242,962	15,465,818
(F1) EPS Est 1 week change	2.18%	0.00%	0.00%	-26.08%	0.07%	0.00%
(F1) EPS Est 4 week change	-40.15%	-12.50%	-6.32%	-75.00%	-48.74%	-26.44%
(F1) EPS Est 12 week change	-45.25%	-28.47%	-12.93%	-74.76%	-52.18%	-28.47%
(Q1) EPS Est Mthly Chg	-43.75%	-15.40%	-11.84%	-77.56%	-45.18%	-31.28%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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