

Goldman Sachs (GS)

\$176.96 (As of 04/08/20)

Price Target (6-12 Months): **\$151.00**

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:D

Value: C

Growth: D

Momentum: D

Summary

Shares of Goldman have underperformed the industry year to date. Earnings estimates have been revised downward prior to first quarter earnings release. The company has a decent earnings surprise history, outpacing the Zacks Consensus Estimate in two of the trailing four quarters. Legal issues remain a headwind. Further, high dependence on overseas revenues and volatile client-activity may impede Goldman's top line. Notably, the company has temporarily suspended share buybacks through the second quarter of 2020, 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 revenue under pressure. Moreover, stretched valuation remains a concern for the company.

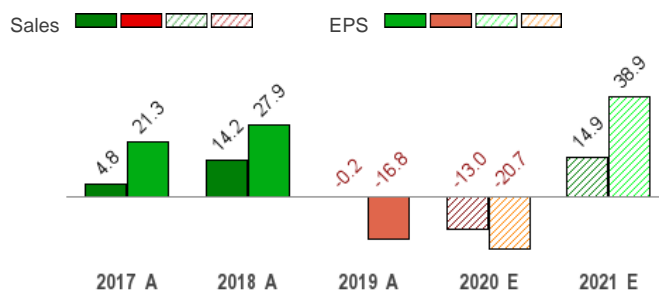
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.46 - \$130.85
20 Day Average Volume (sh)	5,917,291
Market Cap	\$60.9 B
YTD Price Change	-23.0%
Beta	1.43
Dividend / Div Yld	\$5.00 / 2.8%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.8%
Last Sales Surprise	13.7%
EPS F1 Est- 4 week change	-31.5%
Expected Report Date	04/15/2020
Earnings ESP	-14.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,515 E	9,392 E	9,022 E	9,477 E	36,555 E
2020	6,751 E	8,464 E	8,198 E	8,764 E	31,809 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	\$5.46 E	\$4.99 E	\$5.43 E	\$6.30 E	\$23.16 E
2020	\$4.22 E	\$3.08 E	\$3.41 E	\$4.37 E	\$16.68 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.

P/E TTM	8.4
P/E F1	10.6
PEG F1	1.6
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

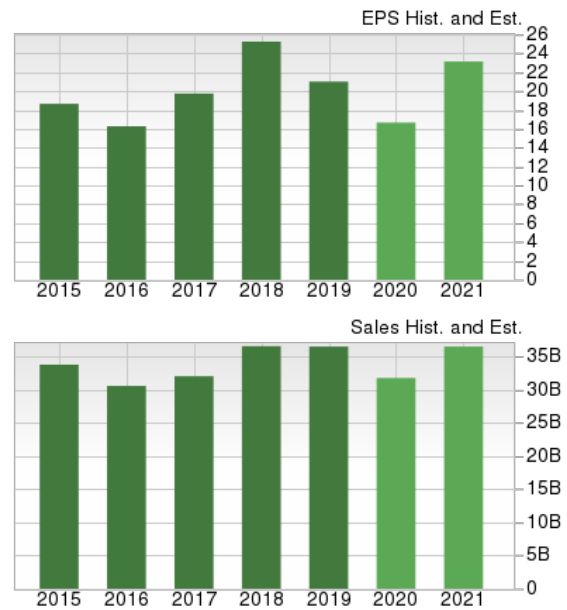
Overview

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 recorded a three-year CAGR of 9.6% in 2019. Though the division recorded growth, a challenging environment depicting volatile client-activity levels, along with trade-war and Brexit-related uncertainty, and other geopolitical 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 year to date. With this unfavorable trend, the company's current-year earnings estimate has been revised 31.2% 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. Nevertheless, M&A activities were strong in 2018 and 2019, with the execution of many large transactions. 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. 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.
 - 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. Notably, 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 Sachs Q4 Earnings Disappoint, Revenues Up

Goldman reported a negative earnings surprise of 9.8% in fourth-quarter 2019. The company posted earnings per share of \$4.69, missing the Zacks Consensus Estimate of \$5.20. Further, the bottom-line figure compares unfavorably with earnings of \$6.04 per share recorded in the year-earlier quarter.

The investment bank disappointed with rise in operating expenses and provisions. Moreover, lower financial advisory and corporate lending revenues were on the downside. However, strong underwriting business and higher Fixed Income, Currency and Commodities Client Execution (FICC) revenues provided some respite. In addition, wealth management and consumer banking business reported an upswing.

For full-year 2019, net income per share of \$21.03 came in lower than the year-ago earnings of \$25.27. Earnings also lagged the Zacks Consensus Estimate of \$24.07. Results included impact of \$3.16 related to net provisions for litigation and regulatory proceedings during the year.

Revenues Improve, Expenses Up

For full-year 2019, the company reported revenues of \$36.5 billion, almost stable year over year. Nevertheless, revenues managed to beat the Zacks Consensus Estimate of \$35.3 billion.

Goldman's net revenues were up 23% year over year to \$10 billion in the reported quarter. The revenue figure also beat the Zacks Consensus Estimate of \$8.8 billion.

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

The **Global Markets** division recorded revenues of \$3.5 billion, up 33% year over year. This upside indicates higher net revenues in Fixed Income, Currency and Commodities Client Execution (up 63% year over year), driven by elevated revenues from interest rate, mortgages and commodities. Further, FICC financing was on the upside.

Furthermore, higher equities revenues (up 12%) were recorded, backed by elevated equities intermediation and financing.

The **Asset Management** division recorded revenues of \$3 billion, up 52% year over year. This upside mainly stemmed from elevated equity investments and lending, along with management and other fees, partially mitigated by lower Incentive fees.

The **Consumer and Wealth Management** division's revenues of \$1.4 billion in the December-end quarter came in 8% higher year over year. Increased revenues from wealth management (up 6%) and consumer banking (up 23%) led to this upsurge.

The **Investment Banking** division generated revenues of around \$2.06 billion, down 6% year over year. Results suggest decreased financial advisory revenues (down 29%), which reflects a decline in industry-wide completed mergers and acquisition activities. Also, corporate lending disappointed with an 8% decline. However, higher underwriting revenues (up 31%), aided by elevated equity and debt underwriting revenues, were on the upside.

Total operating expenses flared up around 42% year over year at \$7.3 billion. Rise in almost all components of expenses resulted in this upswing.

Notably, higher net provisions for litigation and regulatory proceedings of \$1.9 billion were recorded.

Provision for credit losses was \$336 million in the fourth quarter, up 51% year over year. Higher provisions are related to rise in impairments.

Strong Capital Position

Goldman displayed a robust capital position in the reported quarter. As of Dec 31, 2019, the company's Common Equity Tier 1 ratio was 13.7% under the Basel III Advanced Approach, highlighting valid transitional provisions. The figure was up from the prior-year quarter's 13.1%.

The company's supplementary leverage ratio, on a fully phased-in basis, was 6.2% at the end of the October-December quarter, in line with the prior-year quarter.

Return on average common shareholders' equity, on an annualized basis, was 8.7% in the quarter and 10% for 2019.

Capital Deployment Update

During 2019, Goldman repurchased 25.8 million shares of its common stock at an average price per share of \$206.56 and a total cost of \$5.34 billion and paid around \$1.54 billion of common stock dividends.

Notably, during fourth-quarter 2019, the company repurchased 10.2 million shares of its common stock at an average price per share of \$212.67 and a total cost of \$2.16 billion, and paid around \$453 million of common stock dividends.

Outlook

With regard to CECL adoption, based on Goldman's loan portfolio as of year-end 2019, management expects to record a day 1 increase to the reserves of approximately \$825 million in the first quarter of 2020. This will result in a onetime after-tax reduction to retained earnings of

Quarter Ending 12/2019

Report Date	Jan 15, 2020
Sales Surprise	13.69%
EPS Surprise	-9.81%
Quarterly EPS	4.69
Annual EPS (TTM)	21.00

approximately \$625 million, which for regulatory capital purposes will be phased in over the prescribed transition period.

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%.

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 Jan 14, Goldman's board of directors announced a quarterly dividend of \$1.25 per share. The dividend was paid on Mar 30, to shareholders of record as of Mar 2, 2020.

Valuation

Goldman's shares are down 23% in the year-to-date period and 12.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.9% and 26.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is down 15% and 19.5%, respectively.

The S&P 500 Index is down 17.3% in the year-to-date period and 7.7% in the past year.

The stock is currently trading at 8.38X forward 12 months earnings, which compares to 10.91X for the Zacks sub-industry, 12.48X for the Zacks sector and 17.7X 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 \$151 price target reflects 7.15X 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	8.38	10.91	12.48	17.7
	5-Year High	15.48	15.31	16.19	19.34
	5-Year Low	5.49	6.04	11.23	15.19
	5-Year Median	9.78	11.22	13.95	17.45
P/TB TTM	Current	0.82	1.82	2.41	10.39
	5-Year High	1.51	3.33	3.97	12.78
	5-Year Low	0.63	1.4	1.97	6.02
	5-Year Median	1.13	2.39	3.45	9.14
P/S F12M	Current	1.81	3.32	4.93	3.04
	5-Year High	3.24	4.53	6.65	3.44
	5-Year Low	1.24	2.74	4.93	2.54
	5-Year Median	2.32	3.55	6.03	3.01

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



Top Peers

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

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	GS Underperform	X Industry	S&P 500	EVR Outperform	JPM Neutral	MS Neutral
VGM Score	D	-	-	A	D	F
Market Cap	60.85 B	428.64 M	19.05 B	2.27 B	287.29 B	62.03 B
# of Analysts	6	2.5	13	2	9	7
Dividend Yield	2.83%	0.00%	2.23%	4.16%	3.82%	3.56%
Value Score	C	-	-	A	C	F
Cash/Price	7.03	0.79	0.06	0.34	3.58	5.12
EV/EBITDA	-6.20	3.43	11.47	4.36	-4.50	-0.99
PEG Ratio	1.57	0.94	2.00	NA	2.13	0.94
Price/Book (P/B)	0.79	1.27	2.56	1.94	1.26	0.86
Price/Cash Flow (P/CF)	6.16	7.44	10.14	5.34	6.72	5.62
P/E (F1)	10.61	9.46	16.97	6.27	10.66	9.16
Price/Sales (P/S)	1.13	1.13	2.01	1.13	2.01	1.15
Earnings Yield	9.43%	10.57%	5.81%	15.96%	9.38%	10.92%
Debt/Equity	2.62	0.45	0.70	0.53	1.24	2.60
Cash Flow (\$/share)	28.72	2.30	7.01	10.44	14.04	7.01
Growth Score	D	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	8.49%	14.18%	10.92%	30.83%	16.24%	19.85%
Proj. EPS Growth (F1/F0)	-20.67%	0.45%	-0.64%	15.58%	-17.45%	-13.74%
Curr. Cash Flow Growth	-13.72%	4.82%	5.93%	-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	0.77	1.29	1.24	2.53	0.92	0.75
Debt/Capital	69.64%	29.11%	42.36%	34.47%	54.21%	69.96%
Net Margin	15.70%	11.28%	11.64%	14.85%	25.49%	16.80%
Return on Equity	10.63%	12.77%	16.74%	36.33%	15.19%	11.70%
Sales/Assets	0.06	0.25	0.54	0.93	0.05	0.06
Proj. Sales Growth (F1/F0)	-12.96%	0.00%	0.61%	9.66%	-1.96%	-7.13%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	6.59%	1.20%	4.33%	5.32%	4.04%	6.58%
1 Week Price Chg	-7.21%	-0.01%	-4.40%	1.72%	-7.77%	-0.47%
4 Week Price Chg	2.95%	-0.97%	-1.70%	7.79%	-1.73%	6.78%
12 Week Price Chg	-27.83%	-26.62%	-20.64%	-25.80%	-31.03%	-25.63%
52 Week Price Chg	-12.82%	-24.78%	-12.97%	-38.34%	-10.48%	-11.43%
20 Day Average Volume	5,917,291	108,457	4,016,075	803,067	31,070,660	24,231,340
(F1) EPS Est 1 week change	-24.37%	0.00%	-0.26%	0.00%	-8.23%	-13.79%
(F1) EPS Est 4 week change	-31.49%	-4.20%	-5.64%	0.00%	-16.49%	-19.19%
(F1) EPS Est 12 week change	-30.85%	-16.63%	-7.49%	1.08%	-15.53%	-16.63%
(Q1) EPS Est Mthly Chg	-45.36%	-7.14%	-9.90%	0.00%	-15.77%	-30.08%

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	D
Momentum Score	D
VGM Score	D

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.

Disclosures

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