S&P Global: Owning Quality Through the Noise

Donovan Stefan
Head of Research

This article outlines the investment case for S&P Global, highlighting its durable competitive advantages, resilience, and opportunity arising from AI-driven market dislocations.

What the Company Does

S&P Global is a leading provider of information and tools. In simple terms, it helps investors, companies, and governments understand risk and make better financial decisions.

The business operates across four key areas: credit ratings, market data, indices, and analytics. Its credit ratings business is the most well-known. When a company or government wants to borrow money, S&P provides an independent assessment of how likely they are to repay that debt. This function is critical. Without trusted credit ratings, global debt markets would be far less efficient, and the cost of borrowing would be significantly higher. Alongside this, S&P provides essential data, benchmarks (such as indices), and analytics that are deeply embedded in the daily functioning of financial markets.

Why We Like It: Opportunity Amid AI-Driven Noise

Recent market volatility, particularly around artificial intelligence, has led to broad-based selling across data and analytics businesses. In many cases, this has been indiscriminate, with little distinction made between companies that are vulnerable to disruption and those that are not. We believe S&P Global falls firmly into the latter category.

Over 95% of S&P's revenues are derived from proprietary data, established methodologies, and deeply embedded workflows. These are protected by strong intellectual property and are not easily replicated. The company's products are trusted, regulated, and integrated into the core plumbing of financial markets. While AI is a powerful tool, it does not replace trusted data sources, regulatory standing, or decades of credibility. In fact, in many cases, AI is more likely to enhance the value of high-quality data providers such as S&P rather than disrupt them.

This disconnect between perception and reality has created an attractive opportunity to build exposure to a high-quality business at a time when sentiment is weak.

Competitive Advantage: A Deep and Durable Moat

S&P Global's strength lies in a combination of structural advantages that are difficult to replicate.

1. Market Structure: The credit ratings industry is highly concentrated, with S&P, Moody's, and Fitch collectively controlling over 95% of the market. In practice, it operates as a duopoly between S&P and Moody's. Market shares have remained remarkably stable over time, reflecting the difficulty of gaining meaningful traction as a new entrant.
2. Regulatory Barriers to Entry: Becoming a recognised credit rating agency requires significant regulatory approval and ongoing compliance. These barriers increased further following the Global Financial Crisis, making it extremely difficult for new competitors to emerge.
3. Deep Integration into Financial Systems: S&P's products are deeply embedded in global financial markets. Its credit ratings are widely used in investment mandates, institutional processes, and regulatory frameworks, often determining what investors are permitted to own. Many investors are required to use ratings from established agencies, and most issuers seek ratings from at least two of the major providers. This creates a self-reinforcing ecosystem. In addition, its indices and commodity benchmarks serve as critical reference points for asset allocation, portfolio construction, and performance measurement. This widespread integration reinforces S&P's importance. As a result, its products form part of the core infrastructure of global financial markets, making them difficult to replace or displace.
4. Intangible Assets and Brand Trust: With over a century of history, S&P is one of the most trusted names in global finance. Its ratings are widely viewed as a benchmark for credit risk, giving it significant influence and credibility.
5. Economies of Scale and Switching Costs: As the largest player, S&P benefits from scale advantages in data, technology, and analytical coverage. At the same time, issuers tend to maintain long-standing relationships with rating agencies, as familiarity improves efficiency and consistency.

A High-Quality Business Model

S&P Global is a capital-light business with strong and consistent cash generation. More than 75% of its revenues are recurring in nature, providing stability and visibility. The business requires relatively low reinvestment to maintain its competitive position, which allows a significant portion of earnings to convert into free cash flow. This has historically been returned to shareholders through dividends and share buybacks, while still supporting continued growth.

Importantly, the company also benefits from pricing power. The cost of a credit rating is small relative to the total cost of issuing debt, yet it can materially reduce borrowing costs. As a result, customers are relatively insensitive to price increases.

Growth Prospects

S&P Global is well positioned to benefit from long-term structural trends in global capital markets. A key driver is the ongoing shift away from bank lending towards bond markets, often referred to as the disintermediation of credit. As more companies and governments access debt markets directly, the demand for credit ratings increases. This trend is particularly evident outside the United States. Europe and many emerging markets still rely heavily on bank financing, leaving significant room for bond market expansion over time. As these markets develop, the need for trusted credit assessments is likely to grow, providing a long runway for S&P.

Risks

While we have strong conviction in the business, there are risks worth considering:

Regulatory scrutiny remains an ongoing factor, particularly given the role credit rating agencies played during the Global Financial Crisis. Changes in regulation could impact how the industry operates over time. In addition, parts of the business are linked to debt issuance activity, which can be cyclical. Periods of lower market activity may weigh on short-term earnings. Finally, while we believe the risk is low, technological disruption, including AI, remains an area we continue to monitor.

Valuation and Return Potential

At current levels, we believe the market is underestimating the durability and growth potential of S&P Global. The recent sell-off has created an opportunity to invest in a high-quality, structurally advantaged business at a more attractive valuation. Over the long term, we expect the company to deliver consistent double-digit earnings growth, supported by strong fundamentals and favourable industry trends. Combined with its capital-light model and shareholder returns, this positions S&P to compound value over time.

Conclusion

In a market increasingly driven by short-term narratives, S&P Global stands out as a resilient, high-quality business with enduring competitive advantages. We believe the current environment provides an opportunity to own this business at an attractive entry point, with the potential to deliver strong long-term returns for patient investors.

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NORTHSTAR ASSET MANAGEMENT

Northstar Asset Management (Pty) Ltd
Registration No. 1996/001423/07 | FSP number 601
Suite 1A, Madison Place, Alphen Office Park, Constantia Road,
Constantia PostNet Suite #784, Private Bag X16, Constantia 7848
Tel +27 (0)21 810 8400 | Fax +27 (0)21 794 2885
info@northstar.co.za | www.northstar.co.za

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