

Goldman Sachs (GS)

Poor Results Not Expected to Persist

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SYM/EXCH	Current	Previous
Rating	Buy	Buy
Target Price	\$170.00	\$170.00
Normalized Earnings	\$22.30	\$22.40

Stock Data (06/10)

Current Price	\$143.00	
52 Week Low/High	\$131.30	\$193.60
Est. 2010 Earnings Per Share	\$14.51	9.9x
Est. 2010 Rev per share/P:RPS	\$71.52	2.00x
Book Value/Price:Book	\$115.20	1.24x
Tangible BV/Price:TBV	\$105.04	1.36x
Dividend/Yield	\$1.40	1.0%
Shares Out/Mkt. Cap (mil)	580	82,940

Income Statement (mil)/ Percent of Revenue (06/10)

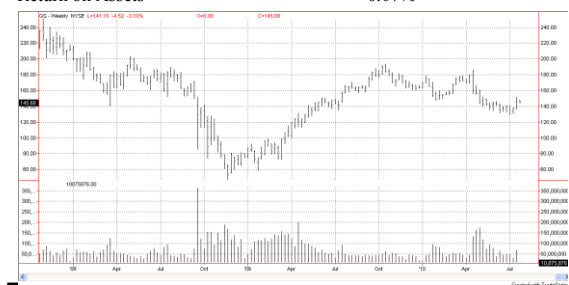
Principal Transactions	\$5,292	59.9%
Investment Banking	\$917	10.4%
Investment Management	\$1,013	11.5%
Net Interest Income	\$1,619	18.3%
Operating Revenues	\$8,841	100.0%
Personnel Costs	\$3,802	43.0%
All Other Expenses	\$2,441	27.6%
Pretax Income	\$2,598	29.4%

Balance Sheet (mil)/Percent of Assets (06/10)

Cash		
Segregated cash & securities		
Fed Funds & Repos		
Securities Borrowed		
Receivables		
Trading assets		
Other		
Est. Assets	\$883,000	100.0%
Deposits		
Collateralized Borrowings		
Payables		
Trading Liabilities		
Borrowings		
Other Liabilities		
Long Term Debt		
Preferred Stock	\$6,957	0.8%
Common Equity	\$66,862	7.6%
Tangible Common Equity	\$60,968	6.9%

Key Ratios (06/10)

3-Year RPS CAGR	(2.70%)
3-Year EPS CAGR	(1.03%)
Tier One Common	12.5%
Return on Equity	3.67%
Return on Assets	0.07%



Source: Trade Station

Highlights

- Goldman Sachs reported second quarter earnings of \$0.78 per share. Operating earnings were \$2.75 per share. This compared to my estimates of \$1.41 per share for reported results and \$2.34 per share for operating earnings. The earnings estimates have been adjusted as follows: a) the 2010 estimate has been reduced to \$14.51 per share from \$15.10 per share; b) the 2011 estimate has been adjusted to \$20.62 per share from \$20.64 per share; and c) the 2012 estimate has been increased slightly to \$22.02 per share from \$21.93 per share. The normalized earnings estimate was cut to \$22.30 per share from \$22.40 per share.
- As expected, Goldman reported very poor earnings in the second quarter. Its operating earnings beat my operating earnings estimate because it cut costs faster than it reduced revenues. There were two special charges in the quarter. The first was for \$600 million to pay a one-time payroll tax in London; the second was for \$550 million to pay a SEC fine in the United States.
- During the quarter investment banking revenue came in at \$917 million. This was 23% below the first quarter and 6% below estimate. This quarter may have been the weakest for investment banking since 2003. Goldman's financial advisory business actually showed a slight improvement but debt and equity underwriting did very poorly reflecting the weak markets.
- This business is expected to recover in the third quarter and throughout next year. Goldman has just led managed the biggest underwriting in history and its backlogs are solid. The third quarter is starting off with good results.
- Goldman's most important business, by far, is trading. In the second quarter, results plummeted 42% from the first quarter and they were 14% below estimate. There was weakness across the board. No business showed any particular strength.
- The decline may be attributed to the uncertainty that developed in the quarter related to European finances and fears of a new economic downturn in the United States. This trading decline is not expected to persist. Money is building in investors' hands and it must be put to work. Balance sheets need to be rebalanced and transactions are growing in the economy. All of this suggests some recovery in trading in the third quarter and next year.
- Asset management and security services results were actually up 4% sequentially and were 9% ahead of estimate. The surprise came mainly in the securities services division where it appears Goldman is increasing market share despite its bad publicity.
- The company cut expenses dramatically in the quarter. They were down 17% relative to estimate and actually fell 3% including the special charges. The reason was a sharp reduction in compensation costs. This decline reflected poorer trading and investment banking revenues.
- Overall, the company had a bad quarter, as expected. However, it does appear that earnings are about to rise again and so may the stock price.

Note: The tables in this report have been prepared by Rochdale Securities from sources believed to be accurate. However, accuracy cannot be guaranteed.

	2009	2010	2011	2012
Mar	\$3.39	\$5.59	\$5.26	\$5.73
Jun	\$4.93	\$0.78	\$5.44	\$5.85
Sep	\$5.25	\$3.40	\$4.82	\$5.15
Dec	\$8.20	\$4.71	\$5.11	\$5.30
Year	\$22.16	\$14.51	\$20.62	\$22.02
Previous	\$22.16	\$15.10	\$20.64	\$21.93
Consensus	\$22.16	\$19.57	\$20.57	\$22.12
P/E Multiple	6.5x	9.9x	6.9x	6.5x

	June 2010 Quarter		
Income Statement	Estimate	Actual	% Diff
<u>Revenues</u>			
Net Interest Income	\$3,091	\$3,302	6.8 %
Interest Expense	(\$1,630)	(\$1,683)	3.3 %
Net Interest Income	\$1,461	\$1,619	10.8 %
Investment Banking	\$977	\$917	(6.1)%
Principal Transactions	\$6,161	\$5,292	(14.1)%
Asset Management	\$929	\$1,013	9.0 %
Operating Revenues	\$8,067	\$7,222	(10.5)%
Net Revenues	\$9,528	\$8,841	(7.2)%
<u>Operating Expenses</u>			
Compensation	\$5,383	\$3,802	(29.4)%
Brokerage & Clearing	\$551	\$622	12.9 %
Market Development	\$116	\$116	0.0 %
Tech & Telecomm	\$180	\$186	3.3 %
Depreciation & Amort	\$379	\$437	15.3 %
Occupancy	\$262	\$274	4.6 %
Professional Services	\$186	\$227	22.0 %
Other	\$477	\$579	21.4 %
Total expenses	\$7,534	\$6,243	(17.1)%
Pretax	\$1,994	\$2,598	30.3 %
Taxes	(\$455)	(\$835)	83.5 %
Net Income	\$1,539	\$1,763	14.6 %
Preferred Dividend	(\$160)	(\$160)	0.0 %
Available Income	\$1,379	\$1,603	16.2 %
Shares	590	580	(1.6)%
Operating EPS	\$2.34	\$2.76	18.2 %
<u>One-Time Event</u>			
SEC Charge	\$550	\$550	0.0 %
Payroll Tax		\$600	
Total	\$550	\$1,150	109.1 %
Estimated income	\$829	\$453	(45.4)%
Estimated EPS	\$1.41	\$0.78	(44.5)%

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 HOLD 48
 SELL 29

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Buy Company has demonstrated that it is a value creating concern; the return on capital (as adjusted) exceeds its cost of capital. Stock is currently trading in a range that does not exceed its intrinsic value. Stock is expected to out-perform the market over the next twelve months.

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HISTORICAL RATINGS

