Apollo Global (APO)

Updated October 14th, 2018 by Josh Arnold

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	16.0%	**Volatility Percentile:**	79.2%
Fair Value Price:	$16	**5 Year Growth Estimate:**	22.5%	**Momentum Percentile:**	57.4%
% Fair Value:	194%	**5 Year Valuation Multiple Estimate:**	-12.5%	**Growth Percentile:**	99.7%
Dividend Yield:	6.0%	**5 Year Price Target**	$44	**Valuation Percentile:**	0.6%
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Total Return Percentile:**	89.5%

Overview & Current Events

Apollo Global is an alternative asset manager that was founded in 1990 and went public in 2011. The company takes investment capital and puts it to work wherever it sees opportunity, including in credit, private equity, and buyouts of companies. Assets under management has grown by more than five times in the past decade and sits at $269 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of $12.5 billion.

Apollo reported second quarter earnings on 8/2/18. Revenue was up 16% as management fees rose 21% against last year's Q2. Total expenses rose 14% as higher compensation costs drove the increase. Apollo also posted $67 million of net losses from investment activities, a line item that is responsible for much of the volatility in the company's earnings. In total, Q2 saw earnings-per-share fall to 25 cents from 44 cents last year, due entirely to the loss from investment activities. We see Apollo producing $1.45 in earnings-per-share this year. With that said, 2018 should represent a trough. Earnings should rebound quickly into 2019.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	N/A	N/A	N/A	$0.86	$3.82	$4.80	$1.42	$0.96	$2.36	$3.57	***$1.45***	***$4.00***
DPS	N/A	N/A	N/A	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	***$1.86***	***$3.50***
Shares	N/A	N/A	N/A	124	130	146	163	181	185	195	***205***	***230***

Apollo's volatile earnings-per-share history is to be expected, although it has other repercussions, including upon the valuation. Due to the complexity and variability of Apollo's investment strategy, returns are lumpy. While this year is a transition year, we see Apollo's steady-state earnings-per-share around $4 and forecast 22.5% average growth annually to get there. We do not see that rate of growth as sustainable but given the very low level of earnings this year, growth numbers will look very strong, particularly when comparing 2019 to 2018.

Apollo continues to grow its assets under management, which then allows it to grow its investment portfolio. This will be the primary source of returns moving forward as Apollo has more capital to enter into new investments. When Apollo enters and exits its stakes in these investments is critical for earnings, but these events cannot be forecast ahead of time, and thus results in volatility in earnings. For this reason, Apollo shares are not for the risk-averse investor.

Apollo's dividend is critically important given the high yield, which is currently 6%. This yield, however, is lower than it has been since 2011, so on this measure, the stock appears overvalued. Apollo's dividend is also irregular in that the company distributes what it can based upon earnings. The payout has seen a very wide range in the past several years due to this, and the dividend is therefore also difficult to forecast. However, we see the payout ratio maintaining in the mid-80% area, which would be good for a $3.50 payout by 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	N/A	--	3.7	5.5	18.9	21.4	7.2	7.6	***21.4***	***11.0***
Avg. Yld.	N/A	N/A	N/A	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	***6.0%***	***8.0%***

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The yield has been much higher than it is today, as mentioned, but the opposite is true of the valuation. Apollo has traded as low as 3.7 times earnings but today, sits at 21.4. We see fair value at 11 times earnings. That implies a 12.5% annual headwind from valuation contraction, but this will be offset by large amounts of growth off the earnings trough.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	N/A	N/A	N/A	--	38%	56%	51%	49%	59%	62%	***55%***	***65%***
Debt/A	N/A	N/A	N/A	67%	72%	70%	74%	70%	67%	59%	***60%***	***65%***
Int. Cov.	N/A	N/A	N/A	(34.6)	114.9	147.7	75.0	15.2	28.0	39.2	***10.0***	***40.0***
Payout	N/A	N/A	N/A	97%	35%	82%	219%	204%	53%	52%	***128%***	***88%***
Std. Dev.	N/A	N/A	N/A	48%	31%	34%	27%	20%	35%	17%	***20%***	***30%***

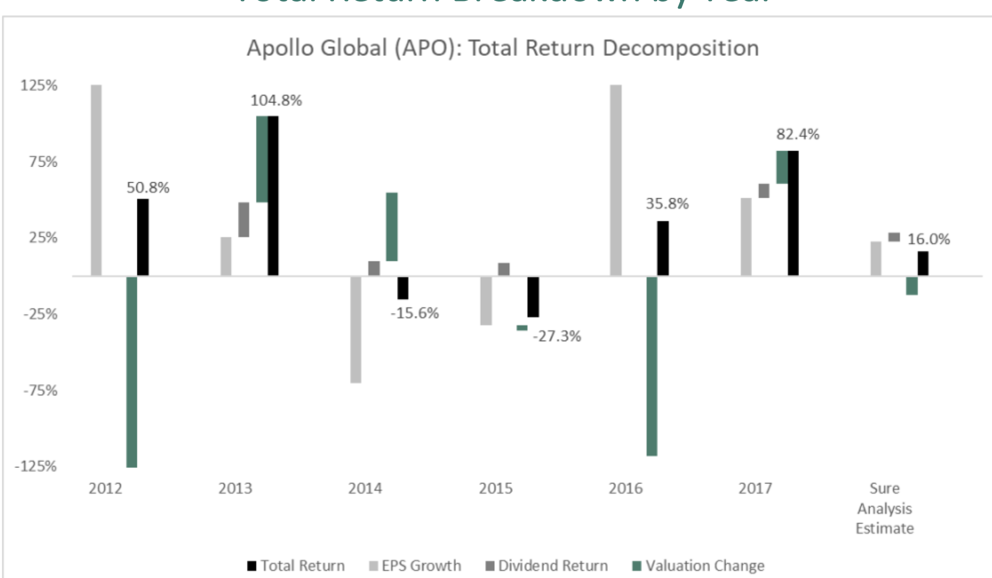
Apollo's quality metrics are unsurprisingly very volatile. However, looking forward we see improved margins off of this year's trough levels to more normalized levels, a prudent amount of leverage on the balance sheet and plenty of interest coverage. The dividend policy remains paying out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high.

Apollo hasn't endured a recession as a public company, but given its broad and complicated investment portfolio, it is likely it will suffer materially when a downturn strikes. Its competitive advantage is in its world-class leadership team that has years of experience in successful investment management.

Final Thoughts & Recommendation

Overall, we rate Apollo a sell despite the outsize growth forecast and high yield. The stock should experience significant volatility in the near term given its valuation and with the yield being low on a historical basis, we believe investors should wait for a better price and yield. This stock certainly would not be appropriate for risk-averse investors and while the 6% yield is enticing, the risk appears to be too great to make a buy recommendation at today's price. Quantitatively, the company's excellent dividend coverage (using free cash flow), moderate historical drawdowns, and high yield allow it to earn a B and A rating for Dividend Safety and Retirement Suitability, respectively.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	171.6	2860.0	3733.6	1560.1	1041.7	1970.4	2610.2
Gross Profit	N/A	N/A	N/A	-1169	1114.6	2139.3	819.5	504.2	1121.2	1574.8
Gross Margin	N/A	N/A	N/A	-681%	39.0%	57.3%	52.5%	48.4%	56.9%	60.3%
SG&A Expense	N/A	N/A	N/A	174.6	212.1	264.0	280.6	263.5	273.2	271.8
D&A Expense	N/A	N/A	N/A	26.3	53.2	54.2	45.1	44.5	18.7	18.4
Operating Profit	N/A	N/A	N/A	-1370	849.2	1821.1	538.9	240.8	847.9	1303.0
Operating Margin	N/A	N/A	N/A	-798%	29.7%	48.8%	34.5%	23.1%	43.0%	49.9%
Net Profit	N/A	N/A	N/A	-468.8	311.0	659.4	168.2	134.5	402.9	629.1
Net Margin	N/A	N/A	N/A	-273%	10.9%	17.7%	10.8%	12.9%	20.4%	24.1%
Free Cash Flow	N/A	N/A	N/A	722.5	320.4	1126.9	-378.9	576.5	608.9	799.7
Income Taxes	N/A	N/A	N/A	11.9	65.4	107.6	147.2	26.7	90.7	325.9

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	7975.9	20637	22478	23173	4559.8	5629.6	6991.1
Cash & Equivalents	N/A	N/A	N/A	912.22	2628.9	2173.3	2293.0	669.30	847.65	844.16
Goodwill & Int. Ass.	N/A	N/A	N/A	130.74	186.75	144.17	109.28	117.47	111.57	107.69
Total Liabilities	N/A	N/A	N/A	5327.6	14934	15790	17229	3171	3762	4093.
Accounts Payable	N/A	N/A	N/A	33.55	38.34	38.16	44.25	92.01	57.47	68.87
Long-Term Debt	N/A	N/A	N/A	3928.	12573	13174	15151	1827	2139	2364
Shareholders' Equity	N/A	N/A	N/A	726.40	2666.8	2637.3	1786.5	649.51	835.12	1198.5
D/E Ratio	N/A	N/A	N/A	5.41	4.71	5.00	8.48	2.81	2.56	1.62

Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%
Return on Equity	N/A	N/A	N/A	-107%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%
ROIC	N/A	N/A	N/A	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%

Note: All figures in millions of U.S. Dollars unless stated otherwise.