Apollo Global (APO)

Updated November 3rd, 2018 by Josh Arnold

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	16.8%	**Volatility Percentile:**	79.1%
Fair Value Price:	$17	**5 Year Growth Estimate:**	21.0%	**Momentum Percentile:**	49.7%
% Fair Value:	173%	**5 Year Valuation Multiple Estimate:**	-10.4%	**Growth Percentile:**	99.7%
Dividend Yield:	6.2%	**5 Year Price Target**	$44	**Valuation Percentile:**	1.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	90.6%

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 $270 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of $12 billion.

Apollo reported Q3 earnings on 10/31/18 and results were strong enough for us to boost our earnings-per-share estimate for this year. Higher operating expenses were offset by higher fee-related earnings, and distributable earnings came in well in excess of the dividend. Total assets under management rose slightly against Q2 to $270 billion. Further, Apollo is seen as in advanced talks to buy aluminum manufacture Arconic, which would be an $11 billion deal. Apollo has available investment capital in excess of $48 billion, but the purchase of Arconic would certainly be an enormous purchase. Irrespective of whether or not that deal goes through, we have a favorable outlook for Apollo's growth.

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	***$1.55***	***$4.00***
DPS	N/A	N/A	N/A	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	***$1.84***	***$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 2018 is a transition year, we see Apollo's steady-state earnings-per-share around $4 and forecast 21% 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 6.2%. 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	***19.1***	***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 19.1. We see fair value at 11 times earnings. That implies a 10.4% 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%	***119%***	***88%***
Std. Dev.	N/A	N/A	N/A	48%	31%	34%	27%	20%	35%	17%	***20%***	***30%***

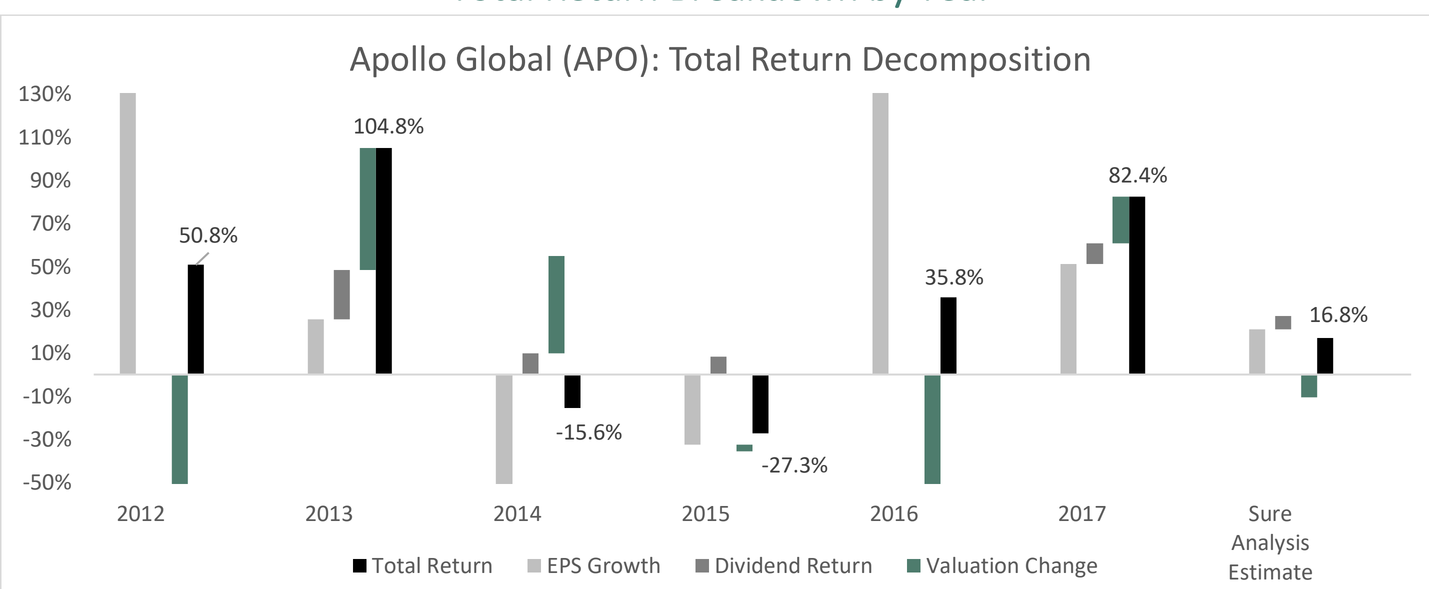
Apollo's quality metrics are unsurprisingly very volatile. However, looking forward we see improved margins off of this year's trough levels to more normalized levels, a prudent amount of leverage on the balance sheet and plenty of interest coverage. The dividend policy remains paying out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. If the Arconic deal goes through, Apollo's metrics may look much different, but for now, the company is on strong footing for future growth.

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 outsized 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 6.2% yield is enticing, the risk appears to be too great to make a buy recommendation at today's price. In total, we see 16.8% total returns from the yield, 21% earnings-per-share growth and a 10.4% headwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	-267	967	2110	172	2860	3734	1560	1042	1970	2610
Gross Profit	-1110	-528	167	-1169	1115	2139	820	504	1121	1575
Gross Margin	N/A	-54.6%	7.9%	N/A	39.0%	57.3%	52.5%	48.4%	56.9%	60.3%
SG&A Exp.	420	95	154	175	212	264	281	263	273	272
D&A Exp.	22	24	24	26	53	54	45	44	19	18
Operating Profit	-1553	-690	-12	-1370	849	1821	539	241	848	1303
Operating Margin	N/A	-71.3%	-0.6%	N/A	29.7%	48.8%	34.5%	23.1%	43.0%	49.9%
Net Profit	-912	-155	95	-469	311	659	168	134	403	629
Net Margin	N/A	-16.1%	4.5%	N/A	10.9%	17.7%	10.8%	12.9%	20.4%	24.1%
Free Cash Flow	96	92	-224	723	320	1127	-379	576	609	800
Income Tax	-37	29	92	12	65	108	147	27	91	326

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2475	3385	6552	7976	20637	22478	23173	4560	5630	6991
Cash & Equivalents	381	366	470	912	2629	2173	2293	669	848	844
Goodwill & Int. Ass.	130	117	113	131	187	144	109	117	112	108
Total Liabilities	2149	2086	3471	5328	14933	15789	17229	3171	3762	4093
Accounts Payable	49	549	518	34	38	38	44	92	57	69
Long-Term Debt	1026	934	752	3928	12573	13174	15151	1827	2139	2364
Shareholder's Equity	-497	-304	151	726	2667	2637	1786	650	835	1199
D/E Ratio	-2.06	-3.07	4.98	5.41	4.71	5.00	8.48	2.81	2.56	1.62

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-24%	-5.3%	1.9%	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%
Return on Equity	455%	38.7%	-124%	-107%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%
ROIC	-38%	-8.7%	3.1%	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%
Shares Out.	N/A	N/A	N/A	124	130	146	163	181	185	195
Revenue/Share	-2.75	10.09	21.76	1.48	22.08	26.25	10.04	6.01	10.71	13.55
FCF/Share	0.99	0.96	-2.31	6.21	2.47	7.92	-2.44	3.33	3.31	4.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.