



Blackstone Group LP (BX)

Updated February 3rd, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	59.2%
Fair Value Price:	\$34	5 Year Growth Estimate:	5.2%	Momentum Percentile:	61.4%
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Growth Percentile:	45.5%
Dividend Yield:	6.4%	5 Year Price Target	\$43	Valuation Percentile:	46.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	72.6%

Overview & Current Events

Blackstone, founded in 1985 by Peter Peterson and Stephen Schwarzman (still CEO), is one of the world's leading investment firms. At the end of 2018 the company held \$472 billion in assets under management (AUM), operating in Private Equity (29% of AUM), Real Estate (28%), Credit (27%) and Hedge Fund Solutions (16%). Today the \$23 billion market cap company employs about 2,500 people in 23 offices worldwide. Note that the BX ticker represents an underlying unitholder interest in Blackstone, with the company acting as a general partner.

On January 31st, 2019 Blackstone reported Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter fee related earnings (FRE) equaled \$433 million (\$0.36 per unit), a 23% year-over-year increase. Distributable earnings (DE) totaled \$722 million (\$0.57 per unit), down from \$1.00 in Q4 2017 as a result of much lower net realizations. For the year Blackstone reported FRE of \$1.46 billion (\$1.21 per unit), representing a 9% increase compared to 2017. Distributable earnings totaled \$2.69 billion or \$2.17 per unit, down 32% from 2017 again related to fewer net performance realizations. Total assets under management came in at \$472.2 billion, a 9% increase driven by \$38.6 billion of inflows.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPU	\$0.63	\$1.26	\$1.23	\$1.72	\$3.08	\$3.76	\$1.82	\$2.00	\$2.81	\$2.26	\$2.80	\$3.60
DPU	\$0.90	\$0.60	\$0.62	\$0.52	\$1.18	\$1.92	\$2.90	\$1.66	\$2.32	\$2.42	\$2.16	\$2.64
Units	320	416	489	556	573	596	624	643	659	670	685	725

Note that instead of earnings-per-share, dividends-per-share and shares outstanding we are dealing with earnings-per-unit, distributions-per-unit and units outstanding, reflecting the partnership format. In addition, Blackstone had previously reported economic net income (similar to a FFO number for REITs) but is no longer doing so and indeed is considering switching to a C-Corp structure.

Blackstone's performance fees tend to be lumpy, which in turn leads to irregular results. From 2010 through 2018, earnings-per-unit grew by a compound average rate of 7.6% per annum, however this varied widely from \$1.26 all the way up to \$3.76 and back down to \$2.26. Over the intermediate-term our assumption is based on the possibility of earning 40 basis points (0.40%) on \$650 billion in assets under management, representing the potential for mid-single digit growth. However, it should be underscored that while the firm has growth opportunities in the way of general economic expansion and new funds / capital, the company's earnings power is greatly influenced by market conditions. Alongside a lumpy earnings pattern, you can see that the distribution has been up and down as well. Just to give you an idea, over the past five quarters Blackstone has announced distributions of \$0.85, \$0.35, \$0.58, \$0.64 and \$0.58. Considering this wide uncertainty, our estimate uses the trailing twelve-month distribution payout (\$2.16) as a starting point. Over the intermediate-term we would anticipate this payout growing, but not necessarily each and every year.



Blackstone Group LP (BX)

Updated February 3rd, 2019 by Eli Inkrot

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.0	9.9	12.7	8.3	7.4	8.6	20.2	13.2	11.3	14.9	12.1	12.0
Avg. Yld.	8.4%	4.8%	4.0%	3.6%	5.2%	5.9%	7.9%	6.3%	7.3%	7.2%	6.4%	6.2%

Over the past decade shares of Blackstone have traded with an average P/E ratio of about 12 times earnings, with a wide range from 7 to 20 times earnings-per-unit. We believe that this is more or less fair considering the security's uneven history and moderate growth prospects. The 6%+ dividend ought to aid meaningfully, but we note two points of caution. First, Blackstone is operating as a partnership pass through entity, meaning that distributions are not directly comparable to qualified dividends. And second, this payment appears solid, but it can fluctuate significantly in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	143%	48%	50%	30%	38%	51%	159%	83%	83%	107%	77%	73%

Blackstone did not fair particularly well during the last recession, posting a loss of \$1.03 per unit in 2008. Moreover, the distribution went from \$1.20 in 2008 down to \$0.90 in 2009 and \$0.60 in 2010. However, the company recovered well, generating solid growth from 2009 through 2014. More recently results have been mixed.

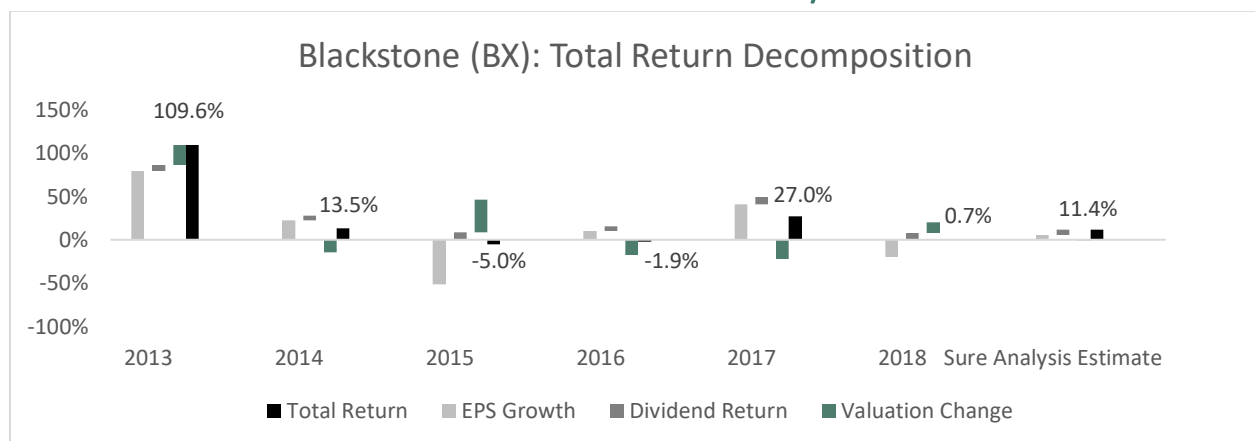
The company does possess a competitive advantage in that it is the largest alternative investment firm in the world. If you're looking to invest outside of the conventional equity space, which is a trend that has been going on for some time, Blackstone has a leading seat at the table; especially for large institutional firms looking for stability.

As of yearend 2018, Blackstone had \$4.7 billion in cash and equivalents and \$10.1 billion in cash and net investments, or \$8.45 per unit (down from \$8.67 in 2017). The company has no net debt and maintains A+ ratings from S&P and Fitch.

Final Thoughts & Recommendation

Blackstone has built itself into a leading alternative asset manager, an area that has grown in recent years and has not yet been subjected the "race to the bottom" as it relates to fee income. With that said, expect volatile results and serious drawdowns (and distribution cuts) during recessions. We rate Blackstone as a hold. The valuation looks "fair", but we'd prefer a bargain for compensation for extra volatility. Income starved investors who understand dividend cuts are likely during a downturn could consider buying at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Blackstone Group LP (BX)

Updated February 3rd, 2019 by Eli Inkrot

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	1774	3119	3253	4019	6613	7485	4647	5126	7119
SG&A Exp.	N/A	4228	4103	3330	3188	3759	3734	2946	2776	3530
D&A Exp.	N/A	158	162	208	139	96	102	101	83	47
Operating Profit	N/A	-2455	-983	-78	832	2854	3750	1700	2350	3589
Operating Margin	N/A	-138%	-31.5%	-2.4%	20.7%	43.2%	50.1%	36.6%	45.8%	50.4%
Net Profit	N/A	-715	-370	-168	219	1171	1585	710	1039	1471
Net Margin	N/A	-40.3%	-11.9%	-5.2%	5.4%	17.7%	21.2%	15.3%	20.3%	20.7%
Free Cash Flow	N/A	388	-426	1063	546	3522	1625	2338	-563	-2473
Income Tax	N/A	99	85	346	185	256	291	190	132	743

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	9489	9409	18845	21909	28932	29679	31497	22526	26403	34429
Cash & Equivalents	1411	952	589	755	710	832	1412	1837	1837	1992
Accounts Receivable	312	306	496	406	638	888	559	613	773	887
Goodwill & Int. Ass.	2781	2623	2483	2299	2302	2348	2246	2064	1981	2188
Total Liabilities	3733	2865	10591	12657	17717	15301	14164	10296	13888	20699
Accounts Payable	N/A	309	629	829	N/A	872	1195	649	1082	2044
Long-Term Debt	387	658	7199	8868	13051	10467	8924	6117	8866	14815
Shareholder's Equity	-5756	5477	6782	7131	8215	9963	11476	9638	9901	10265

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-10.3%	-7.6%	-2.6%	-0.8%	0.9%	4.0%	5.2%	2.6%	4.2%	4.8%
Return on Equity	23.3%	512.1%	-6.0%	-2.4%	2.8%	12.9%	14.8%	6.7%	10.6%	14.6%
ROIC	74.6%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shares Out.	N/A	320	416	489	556	573	596	624	643	659
Revenue/Share	-1.31	6.22	8.57	6.84	7.46	11.20	12.21	3.91	4.29	10.69
FCF/Share	6.90	1.36	-1.17	2.24	1.01	5.96	2.65	1.97	-0.47	-3.71

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.