



Blackstone Group LP (BX)

Updated April 18th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	8.4%	Volatility Percentile:	58.3%
Fair Value Price:	\$34	5 Year Growth Estimate:	5.2%	Momentum Percentile:	78.2%
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Growth Percentile:	48.6%
Dividend Yield:	5.7%	5 Year Price Target	\$43	Valuation Percentile:	32.3%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	53.4%

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 \$25 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 April 18th, 2019 Blackstone reported Q1 2019 results for the period ending March 31st, 2019. For the quarter fee related earnings (FRE) equaled \$374 million (\$0.31 per unit), representing a 11% year-over-year increase. For the last 12 months, fee related earnings have totaled \$1.5 billion or \$1.24 per unit. Distributable earnings (DE) totaled \$538 million (\$0.44 per unit), representing a 7% year-over-year increase. In the last 12 months, distributable earnings have totaled \$2.9 billion or \$2.20 per unit, down from \$2.56 in the year ago period. Total assets under management came in at \$511.8 billion, a 14% increase, driven by \$42.9 billion of inflows.

Separately, Blackstone announced that the company would transform from a publicly traded partnership to corporation. This transition is expected to be effective July 1st, 2019, and eliminates the Schedule K-1, replacing it with a Form 1099-DIV. The move is intended to improve the market for the company's shares.

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	\$2.17	\$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. If the scheduled transition to a corporation goes through later this year, the company's reporting will change once again. For now, we view earnings-per-unit as the best judge of the company's underlying profitability.

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 six quarters Blackstone has announced distributions of \$0.85, \$0.35, \$0.58, \$0.64, \$0.58 and \$0.37. Considering this wide uncertainty, our estimate uses the trailing twelve-month distribution payout (\$2.17) as a starting point. Over the intermediate-term we would anticipate this payout growing, but not necessarily each and every year.

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.



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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	13.6	12.0
Avg. Yld.	8.4%	4.8%	4.0%	3.6%	5.2%	5.9%	7.9%	6.3%	7.3%	7.2%	5.7%	6.1%

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 near 6% dividend yield ought to aid meaningfully, but we note two points of caution. First, Blackstone is currently 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%	78%	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.

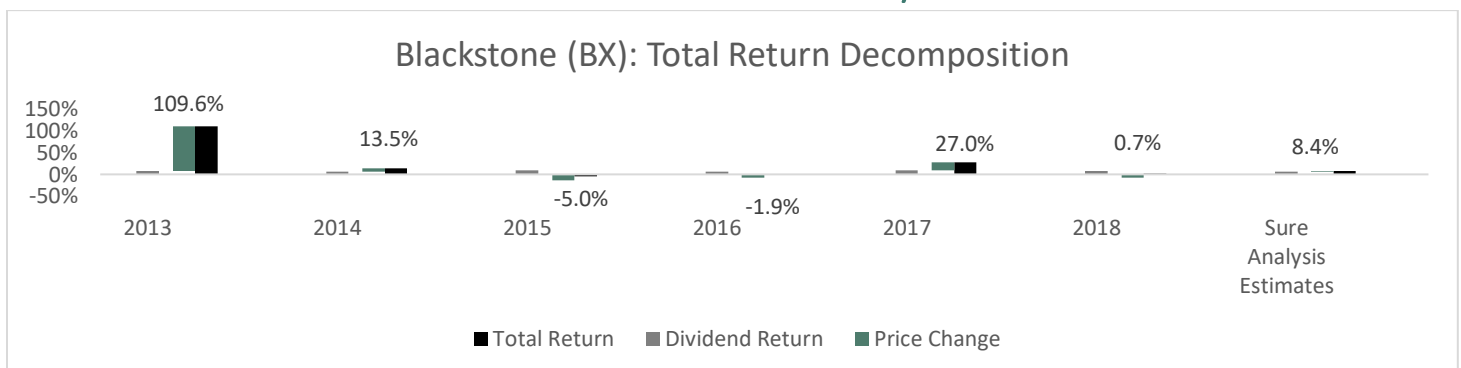
The company does possess a competitive advantage in that it is the largest alternative investment firm in the world. If you're looking to invest outside of the conventional equity space, which is a trend that has been going on for some time, Blackstone has a leading seat at the table; especially for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

As of the most recent quarter, Blackstone had \$4.1 billion in cash and equivalents and \$9.9 billion in cash and net investments, or \$8.27 per unit (down from \$8.67 and \$8.45 in 2017 and 2018). The company has no net debt and maintains A+ ratings from S&P and Fitch.

Final Thoughts & Recommendation

Since our last update shares are up about 12%. Blackstone has built itself into a leading alternative asset manager, an area that has grown in recent years and has not yet been subjected to 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. The total return picture looks average at this point, with the well above average dividend yield offset by low growth expectations and a slightly elevated valuation. As such, we rate Blackstone as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1774	3119	3253	4019	6613	7485	4647	5051	7005	6661
SG&A Exp.	4228	4103	3330	3188	3759	3734	2946	594	621	673
D&A Exp.	158	162	208	139	96	102	101	83	47	59
Operating Profit	-715	-370	-168	219	1171	1585	710	1039	1471	1542
Op. Margin	-40.3%	-11.9%	-5.2%	5.4%	17.7%	21.2%	15.3%	20.6%	21.0%	23.1%
Free Cash Flow	388	-426	1063	546	3522	1625	2338	-110	-1651	27
Income Tax	99	85	346	185	256	291	190	132	743	249

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9409	18845	21909	28932	29679	31497	22526	26403	34416	28925
Cash & Equivalents	952	589	755	710	832	1412	1837	1837	1992	2208
Accounts Receivable	306	496	406	638	888	559	613	773	875	636
Goodwill & Int. Ass.	2623	2483	2299	2302	2348	2246	2064	1981	2188	2338
Total Liabilities	2865	10591	12657	17717	15301	14164	10296	13888	20904	15312
Accounts Payable	309	629	829		872	1195	649	1082	2044	876
Long-Term Debt	658	7199	8868	13051	10467	8924	6117	8866	14815	9952
Shareholder's Equity	5477	6782	7131	8215	9963	11476	9638	9901	6634	6379

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-7.6%	-2.6%	-0.8%	0.9%	4.0%	5.2%	2.6%	4.2%	4.8%	4.9%
Return on Equity	512%	-6.0%	-2.4%	2.8%	12.9%	14.8%	6.7%	10.6%	17.8%	23.7%
Shares Out.	320	416	489	556	573	596	624	643	659	670
Revenue/Share	6.22	8.57	6.84	7.46	11.20	12.21	3.91	4.23	10.51	5.52
FCF/Share	1.36	-1.17	2.24	1.01	5.96	2.65	1.97	-0.09	-2.48	0.02

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

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