Apollo Global (APO)

Updated February 7th, 2020 by Josh Arnold

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	3.0%	**Market Cap:**	$10.5B
Fair Value Price:	$30	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/10/20
% Fair Value:	156%	**5 Year Valuation Multiple Estimate:**	-8.5%	**Dividend Payment Date:**	02/28/20
Dividend Yield:	5.0%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	78%[1]

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 have grown by more than five times in the past decade and sit at $331 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of just over $10 billion.

Apollo reported Q4 and full-year earnings on January 30th and results beat expectations. Distributable earnings came to $2.71 in 2019, a significant improvement from the low point of 2018. Total assets under management ended the year at $331 billion, with fee-generating AUM at $246 billion, and performance fee-eligible AUM of $133 billion. All AUM numbers are up fractionally from Q3. Dry powder remains at a robust $46.4 billion as of the end of the year.

Total revenue for the year soared 168% to $2.9 billion, due primarily to the company's investment income moving from a loss of -$395 million to a gain of $1.2 billion from 2018 to 2019. This measure tends to be very volatile for Apollo, as its gains and losses are driven by the timing of acquisitions and divestitures, as well as distributions from the company's portfolio constituents.

Expenses nearly doubled as profit-sharing expenses moved from -$59 million to $557 million year-over-year. Profit-sharing costs move up and down with distributable income, so again, this volatility is to be expected.

Investment income moved from a loss of -$186 million in 2018 to a gain of $138 million in 2019, helping to drive distributable income per share up 27% year-over-year for 2019.

We are forecasting roughly flat earnings for 2020 and our initial estimate is for $2.75 per share. The dividend was raised 78%, but since the dividend is variable, we're expecting $2.35 in total dividends this year. We'll reassess as the year goes on, but 2020 should be another strong year of dividends and earnings for Apollo.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	-$0.86	$3.82	$4.80	$1.42	$0.96	$2.36	$3.57	-$0.30	$2.71	***$2.75***	***$3.68***
DPS	---	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	***$2.35***	***$3.14***
Shares[2]	---	124	130	146	163	181	185	195	200	200	***200***	***235***

Apollo's volatile earnings-per-share history is to be expected. Due to the complexity and variability of Apollo's investment strategy, returns are very lumpy. While 2018 was a transition year, we see Apollo's steady-state earnings-per-share between $3 and $4, and forecast 6% average growth annually to get there.

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.

[1] Dividends are declared on distributable cash flow, and vary from quarter to quarter

[2] Share count in millions

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Apollo’s dry powder is back up to $46 billion, so we see this as a potential tailwind for growth when this money is eventually deployed.

Apollo’s dividend is critically important given the high yield, which is currently 5.0%. This yield is lower than it has been for much of the time the company has been public, 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 rising to $3.14 by 2024.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	---	---	3.7	5.5	18.9	21.4	7.2	7.6	---	12.3	***17.1***	***11.0***
Avg. Yld.	---	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	***5.0%***	***7.8%***

The yield has been much higher than it is today, as mentioned, and the same is true of the valuation. Apollo has traded as high as 21 times earnings but today, it sits at 17.1 after another rally in recent weeks. We see fair value at 11 times earnings, implying a massive -8.5% annual headwind from valuation contraction if this were to come to fruition. We see the yield rising from the current 5% to 7.8% over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019	2024
Payout	---	---	35%	82%	219%	204%	53%	52%	---	75%	***86%***	***86%***

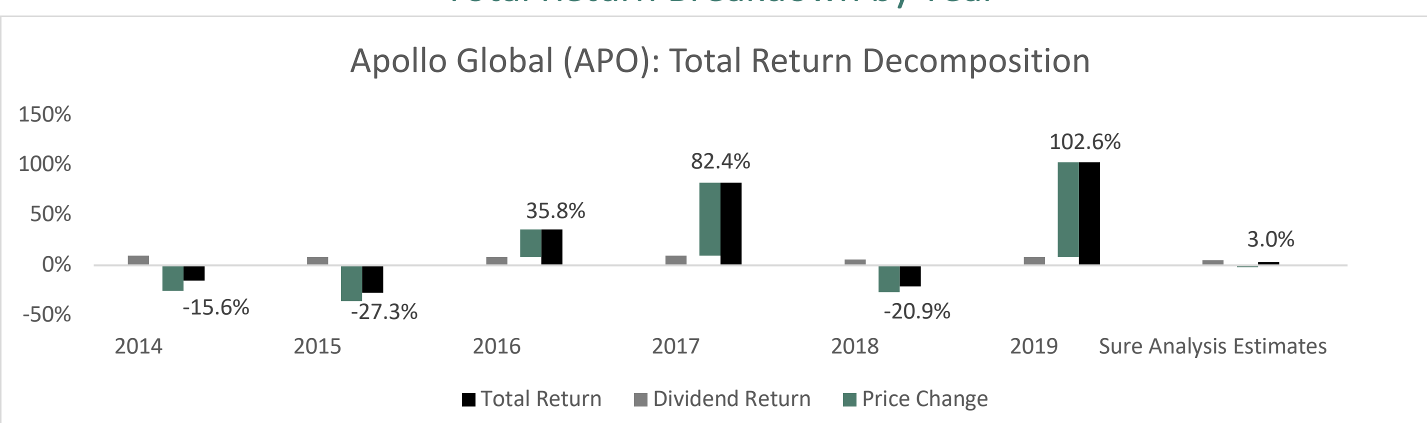
Apollo’s dividend policy is to pay out most of the company’s earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn’t ideal for income investors, so some caution is warranted.

Apollo has not 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. We expect that a downturn would put its dividend in jeopardy, and that the valuation would suffer materially as well. Its competitive advantage is in its world-class leadership team that has years of experience in successful investment management, and its ability to continue to raise capital.

Final Thoughts & Recommendation

We are reiterating Apollo at a sell rating following Q4 results. We see total annual returns of just 3% in the years to come, consisting of the 5% yield, 6% earnings growth and a sizable headwind from the valuation. Apollo is certainly not for the risk-averse investor, and prior total forecast returns have been basically wiped out by the recent rally.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2110	172	2860	3734	1560	1042	1970	2610	1093	
Gross Profit	167	-1169	1115	2139	820	504	1121	1575	518	
Gross Margin	7.9%	-681%	39.0%	57.3%	52.5%	48.4%	56.9%	60.3%	47.4%	
SG&A Exp.	154	175	212	264	281	263	273	272	269	
D&A Exp.	24	26	53	54	45	44	19	18	---	
Operating Profit	-12	-1370	849	1821	539	241	848	1303	63	
Op. Margin	-0.6%	-798%	29.7%	48.8%	34.5%	23.1%	43.0%	49.9%	5.8%	
Net Profit	95	-469	311	659	168	134	403	629	-10	
Net Margin	4.5%	-273%	10.9%	17.7%	10.8%	12.9%	20.4%	24.1%	-0.9%	
Free Cash Flow	-224	723	320	1127	-379	576	609	800	---	
Income Tax	92	12	65	108	147	27	91	326	86	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6552	7976	20637	22478	23173	4560	5630	6991	5992	
Cash & Equivalents	470	912	2629	2173	2293	669	848	844	659	
Goodwill & Int. Ass.	113	131	187	144	109	117	112	108	108	
Total Liabilities	3471	5328	14933	15789	17229	3171	3762	4093	3540	
Accounts Payable	518	34	38	38	44	92	57	69	71	
Long-Term Debt	752	3928	12573	13174	15151	1827	2139	2364	2216	
Shareholder's Equity	151	726	2667	2637	1786	650	835	1199	822	
D/E Ratio	4.98	5.41	4.71	5.00	8.48	2.81	2.56	1.62	1.61	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.9%	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	
Return on Equity	-124%	-107%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	
ROIC	3.1%	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	
Shares Out.	---	124	130	146	163	181	185	195	200	
Revenue/Share	21.76	1.48	22.08	26.25	10.04	6.01	10.71	13.55	2.67	
FCF/Share	-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.