Apollo Global (APO)

Updated May 4th, 2020 by Josh Arnold

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	2.3%	**Market Cap:**	$17.1B
Fair Value Price:	$22	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	05/15/20
% Fair Value:	180%	**5 Year Valuation Multiple Estimate:**	-11.1%	**Dividend Payment Date:**	05/29/20
Dividend Yield:	4.2%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 $316 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of just over $17 billion.

Apollo reported first quarter earnings on May 1st, with revenue slightly beating expectations, but profits coming in light. Fee revenue was $228 million, up from $210 million in the year-ago period. Total assets under management were $316 billion, down from $331 billion at the end of 2019.

The company experienced significant mark-to-market losses given the volatility that occurred in equity and debt markets in March, which reduced assets under management. The pandemic resulted in a GAAP unrealized loss of -$1.1 billion from previously earned allocations, and a further -$0.2 billion of mark-to-market losses in its funds. Apollo also saw a -$1.3 billion mark-to-market loss from its investment in Athene Holding.

Distributable earnings came to $165 million, or $0.37 per share, down from $455 million, or $1.10 per share in Q4, and $207 million, or $0.50 per share in last year's Q1.

Apollo has been aggressively going after new business, focusing on distressed securities, or what it calls "dislocation" from the impact of the virus outbreak. Apollo has spent $50 billion in the past four months, and is looking to raise a further $20 billion in the second quarter to continue to execute this strategy. It continues to have $40.5 billion in cash available for investment.

Apollo cut its dividend by more than half, declaring a $0.42 per share quarterly payout, down from $0.89. We've slashed our earnings-per-share estimate for this year from $2.75 to $2.00 on this weakness.

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	***$2.00***	***$3.22***
DPS	---	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	***$1.68***	***$1.85***
Shares[1]	---	124	130	146	163	181	185	195	200	200	***227***	***300***

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 10% average growth annually to get there from this year's trough.

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] Share count in millions

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Apollo's dry powder is back up to $40.5 billion, so we see this as a potential tailwind for growth when this money is eventually deployed, particularly if deployments are made at distressed prices.

Apollo's dividend is critically important given the high yield, which is currently 4.2%. This yield is lower than it has been for substantially all 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. With the payout having been cut, we see the yield rising back to 5.2%, which is still very low by historical standards for Apollo.

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	***19.8***	***11.0***
Avg. Yld.	---	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	***4.2%***	***5.2%***

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 19.8 after a rally in recent weeks. We see fair value at 11 times earnings, implying a massive annual headwind from valuation contraction if this were to come to fruition. We see the yield rising from the current 4.2% to 5.2% 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%	***84%***	***58%***

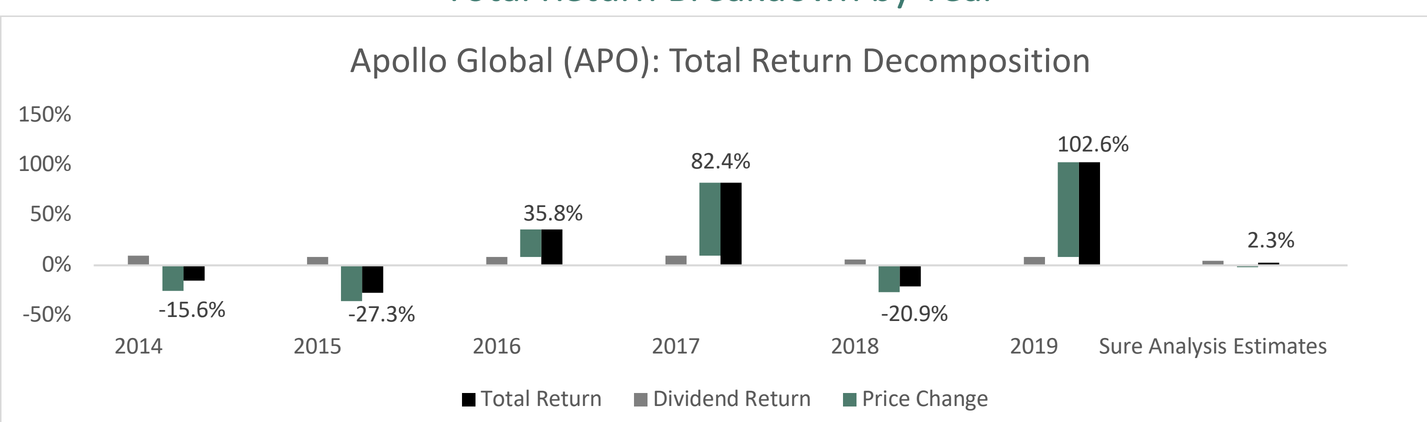
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

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 during this downturn. We expected that a downturn would put its dividend in jeopardy, but the valuation has held up well, leaving shares overvalued. 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 Q1 results. We see total annual returns of just 2.3% in the years to come, consisting of the 4.2% yield, 10% 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	2,110	570	730	871	1,166	944	2,074	2,772	1,093	2,932
Gross Profit	167	(771)	(1,015)	(723)	425	407	1,224	1,736	518	1,671
Gross Margin	7.9%	-135.4%	-139.0%	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%
SG&A Exp.	154	171	190	222	265	255	247	258	266	330
D&A Exp.	24	26	53	54	45	44	19	18	15	16
Operating Profit	(12)	(968)	(1,258)	(999)	160	152	977	1,479	252	1,340
Op. Margin	-0.6%	-170.0%	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%
Net Profit	95	(469)	311	659	168	134	403	629	(10)	843
Net Margin	4.5%	-82.3%	42.6%	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%
Free Cash Flow	(224)	723	320	1,127	(379)	576	593	851	800	1,043
Income Tax	92	12	65	108	147	27	91	326	86	(129)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6,552	7,976	20,637	22,478	23,173	4,560	5,630	6,991	5,992	8,542
Cash & Equivalents	470	912	2,630	2,175	2,295	674	855	844	659	1,602
Goodwill & Int. Ass.	113	131	187	144	109	117	112	108	108	115
Total Liabilities	3,471	5,328	14,933	15,789	17,229	3,171	3,762	4,093	3,540	5,504
Accounts Payable	518	34	42	41	44	92	57	69	71	94
Long-Term Debt	752	3,928	12,573	13,174	15,151	1,827	2,139	2,364	2,216	3,501
Shareholder's Equity	151	726	2,667	2,637	1,786	650	835	1,199	822	1,298
D/E Ratio	4.98	5.41	4.71	5.00	8.48	2.81	2.56	1.62	1.61	1.89

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%	11.6%
Return on Equity	---	-106.9%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%
ROIC	3.1%	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%
Shares Out.	---	124	130	146	163	181	185	195	200	200
Revenue/Share	21.76	4.89	5.64	6.13	7.51	5.45	11.27	14.39	5.47	14.04
FCF/Share	(2.31)	6.21	2.47	7.92	(2.44)	3.33	3.23	4.42	4.00	5.00

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