



Blackstone Group Inc. (BX)

Updated January 28th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	0.1%	Market Cap:	\$48 B
Fair Value Price:	\$42	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/05/21
% Fair Value:	162%	5 Year Valuation Multiple Estimate:	-9.2%	Dividend Payment Date:	02/16/21
Dividend Yield:	3.3%	5 Year Price Target	\$56	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

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 2020 the company held \$619 billion in assets under management (AUM), operating in Private Equity (32% of AUM), Real Estate (30%), Credit (25%) and Hedge Fund Solutions (13%). Today the \$48 billion market cap company employs about 2,600 people.

Note that the BX ticker previously represented an underlying unitholder interest in Blackstone, with the company acting as a general partner. However, on July 1st, 2019 Blackstone completed its transformation from a publicly traded partnership to a corporation. This move eliminated the Schedule K-1, replacing it with a Form 1099-DIV, and is intended to improve the market for the company's shares. This report marks the company's sixth quarter as a corporation.

On January 27th, 2021 Blackstone reported Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter total revenue equaled \$3.63 billion, up from \$2.09 billion in the year ago quarter, helped by a significant uptick in investment gains. Management and advisory fees totaled \$1.13 billion compared to \$944 million in Q4 2019. Fee related earnings equaled \$750 million or \$0.62 per share, which was up 36% year-over-year. Distributable earnings totaled \$1.5 billion or \$1.13 per share, which was up 60% year-over-year.

For the year Blackstone generated \$6.10 billion in total revenue, down from \$7.34 billion in 2019, as a result of lower investment income. Management and advisory fees totaled \$4.09 billion compared to \$3.47 billion in 2019. Fee related earnings equaled \$2.4 billion or \$1.97 per share, up 33%. Distributable earnings totaled \$3.3 billion or \$2.65 per share, up 16% year-over-year. Total assets under management equaled \$618.6 billion, up 8% year-over-year, driven by \$32.3 billion in inflows. Blackstone also declared a quarterly dividend of \$0.96.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.23	\$1.72	\$3.08	\$3.76	\$1.82	\$2.00	\$2.81	\$2.26	\$2.31	\$2.65	\$2.80	\$3.75
DPS	\$0.62	\$0.52	\$1.18	\$1.92	\$2.90	\$1.66	\$2.32	\$2.42	\$1.92	\$1.91	\$2.26	\$2.62
Shares¹	489	556	573	596	624	643	659	663	680	684	700	770

Note that the table above showcases earnings-per-unit, distributions-per-unit and units outstanding through 2018, reflecting the previous partnership format. In addition, Blackstone had previously reported economic net income (similar to FFO for REITs) but is no longer doing so. With the transition to a corporation complete, we are now using distributable earnings as our baseline.

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. The COVID-19 pandemic has pressured all companies, but we are encouraged by Blackstone's prior fundraising and \$148 billion in "dry powder capital" set to deploy.

Over the intermediate term our earnings assumption is based on the possibility of earning 40 basis points (0.40%) on ~\$720 billion in assets under management and implies a ~6% growth rate from our projection for 2021. However, it

¹ In millions.

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should be underscored that while the firm has growth opportunities, the company's earnings power is greatly influenced by market conditions. Alongside a lumpy earnings pattern, the distribution / dividend has been up and down as well. Our estimate uses the trailing twelve-month payout (\$2.26), which includes the most recent \$0.96 payment.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.7	8.3	7.4	8.6	20.2	13.2	11.3	14.9	14.4	18.6	24.3	15.0
Avg. Yld.	4.0%	3.6%	5.2%	5.9%	7.9%	6.3%	7.3%	7.2%	4.4%	3.9%	3.3%	4.7%

Over the past decade shares of Blackstone have traded with an average P/E ratio of about 13 times earnings. We are using a multiple slightly above this historical mark, closer to the five-year average, taking into consideration the transformation from a partnership to a corporation, along with the security's uneven history and moderate growth prospects. The 3.3% dividend yield will aid returns, but we do note that while this payment appears solid, it can fluctuate significantly in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	50%	30%	38%	51%	159%	83%	83%	107%	83%	72%	81%	70%

Blackstone did not fare 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.

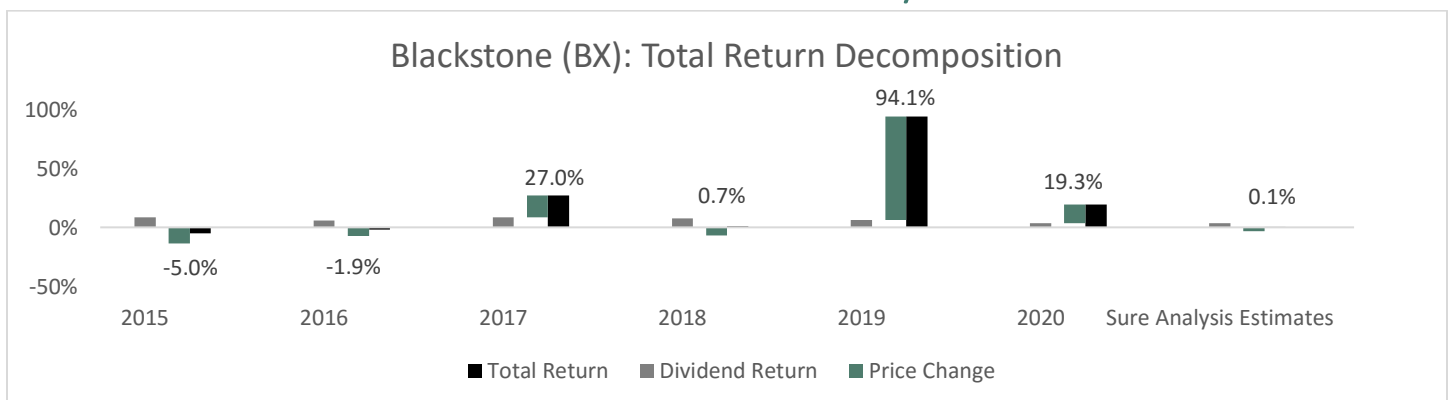
The company does possess a competitive advantage in that it is the largest alternative investment firm in the world. If you're looking to invest outside of the conventional equity space, which is a trend that has been going on for some time, Blackstone has a leading seat at the table; especially for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

As of Q4 2020, Blackstone held \$5.6 billion in cash and equivalents and \$11.5 billion in cash and net investments, or \$9.61 per share. Blackstone has a \$2.3 billion undrawn credit revolver and maintains A+ ratings from S&P and Fitch.

Final Thoughts & Recommendation

Shares are up 36% since our last report. 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 drawdowns during recessions. Total return potential comes in at 0.1% per annum, stemming from 6% growth and a 3.3% dividend yield offset by the possibility of a significant valuation headwind. Although this could be too conservative with a higher valuation multiple. We are reducing our rating from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3253	4019	6613	7485	4647	5051	7005	6661	6861
SG&A Exp.	3330	3188	3759	3734	2946	594	621	673	673
D&A Exp.	208	139	96	102	101	83	47	59	59
Operating Profit	-168	219	1171	1585	710	1039	1471	1542	1542
Op. Margin	-5.2%	5.4%	17.7%	21.2%	15.3%	20.6%	21.0%	23.1%	22.5%
Free Cash Flow	1063	546	3522	1625	2338	-110	-1651	27	27
Income Tax	346	185	256	291	190	132	743	249	249

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	21909	28932	29679	31497	22526	26403	34416	28925	28925
Cash & Equivalents	755	710	832	1412	1837	1837	1992	2208	2208
Accounts Receivable	406	638	888	559	613	773	875	636	---
Goodwill & Int. Ass.	2299	2302	2348	2246	2064	1981	2188	2338	2338
Total Liabilities	12657	17717	15301	14164	10296	13888	20904	15312	15312
Accounts Payable	829		872	1195	649	1082	2044	876	876
Long-Term Debt	8868	13051	10467	8924	6117	8866	14815	9952	9952
Shareholder's Equity	7131	8215	9963	11476	9638	9901	6634	6379	6379

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-0.8%	0.9%	4.0%	5.2%	2.6%	4.2%	4.8%	4.9%	4.9%
Return on Equity	-2.4%	2.8%	12.9%	14.8%	6.7%	10.6%	17.8%	23.7%	23.7%
Shares Out.	489	556	573	596	624	643	659	670	680
Revenue/Share	6.84	7.46	11.20	12.21	3.91	4.23	10.51	5.52	5.68
FCF/Share	2.24	1.01	5.96	2.65	1.97	-0.09	-2.48	0.02	0.02

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

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