Apollo Global (APO)

Updated February 6th, 2021 by Josh Arnold

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$22 B
Fair Value Price:	$38	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/18/21
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	02/26/21
Dividend Yield:	4.7%	**5 Year Price Target**	$48	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.9%

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 $456 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of $22 billion.

Apollo reported fourth quarter and full-year earnings on February 3rd, 2021 with results coming in better than expected on the top and bottom lines, and continuing Apollo's history of very volatile results.

Assets under management grew 5% during the quarter, helped primarily by Athene, Athora, and rising capital markets. Total AUM was $456 billion at the end of the year, up from $433 billion in the third quarter. Capital inflows totaled a whopping $123 billion for the year after Q4 saw +$13 billion. Credit AUM ended the year at $329 billion, up by more than half from the same period a year ago, which was driven by insurance company customers as well as successful fundraising efforts. Private equity AUM was up 5% from the third quarter to $81 billion.

Fee-related revenue was $520 million in Q4, well ahead of expectations for $480 million, and up from $449 million in the year ago period. Credit fee-related earnings were $176 million, up 16%, Private equity fee-related earnings were $82 million, up 6%, and real assets fee-related earnings were $18 million, up 50%.

Distributable earnings-per-share of 72 cents in Q4 was well ahead of expectations but fell from $1.10 in the same period a year ago. Dry powder ended the quarter at $46.8 billion, up slightly from the end of Q3.

We see earnings at $2.90 per share for this year but reiterate that Apollo's results are extremely volatile.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-$0.86	$3.82	$4.80	$1.42	$0.96	$2.36	$3.57	-$0.30	$2.71	$0.44	***$2.90***	***$3.70***
DPS	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	***$2.40***	***$2.40***
Shares[1]	124	130	146	163	181	185	195	200	200	228	***240***	***290***

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. We see earnings growth from here at 5% annually.

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. Apollo's dry powder is $46.8 billion, so we see this as a potential tailwind for growth when this money is eventually deployed, particularly if deployments are made at favorable prices.

Apollo's dividend is critically important given the high yield, which is currently 4.7%. 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

[1] Share count in millions

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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	3.7	5.5	18.9	21.4	7.2	7.6	---	12.3	---	***17.6***	***13.0***
Avg. Yld.	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	***4.7%***	***5.0%***

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 17.6. We see fair value at 13 times earnings, implying a sizable annual headwind from valuation contraction if this were to come to fruition. We see the yield remaining about where it is but reiterate that the company's payouts are variable based upon distributable cash flows.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	35%	82%	219%	204%	53%	52%	---	75%	---	***83%***	***65%***

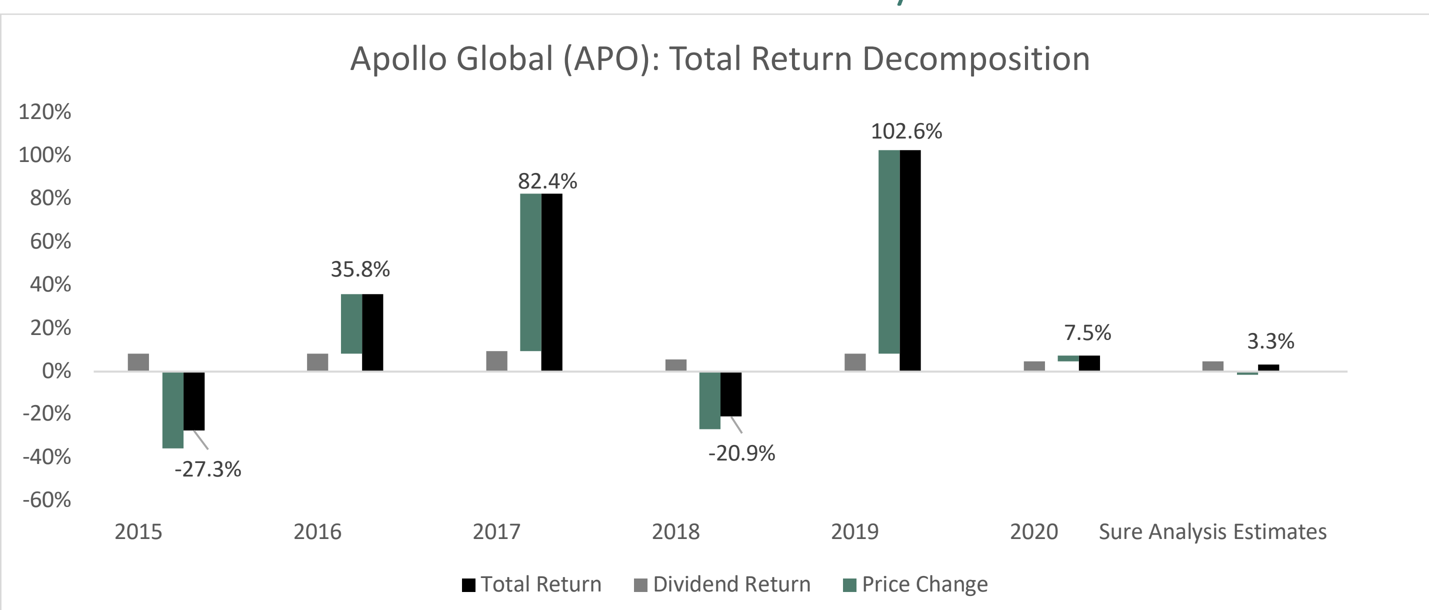
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

Apollo held up extremely well during the 2020 recession, and we see it as well positioned coming out of it and into a recovery. 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 moving Apollo from hold back to sell given the recent rally that has made the stock more expensive. We see total annual returns of 3.3% in the years to come, consisting of the 4.7% yield, 5% earnings growth and a headwind from the valuation. Apollo is certainly not for the risk-averse investor, and we see increased risks at this point given how the stock has performed in 2021.

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.