Apollo Global (APO)

Updated May 9th, 2021 by Josh Arnold

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$25 B
Fair Value Price:	$36	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/19/21
% Fair Value:	162%	**5 Year Valuation Multiple Estimate:**	-9.2%	**Dividend Payment Date:**	05/28/21
Dividend Yield:	3.4%	**5 Year Price Target**	$46	**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 $461 billion today. Apollo has about 1,700 employees and the stock trades with a market capitalization of $25 billion.

Apollo reported first quarter earnings on May 4th, 2021, with results coming in better than expectations on both the top and bottom lines. Total assets under management grew $461 billion, which was driven by market appreciation, as well as fundraising in its flagship funds. Indeed, the company's private equity portfolio showed market appreciation of 22% in the first quarter.

Distributable earnings-per-share were 66 cents, down from 72 cents in Q4, but ahead of expectations for 57 cents. Q1 fee-related earnings-per-share were 56 cents, down from 63 cents in Q4. Total revenue was $2.3 billion, up from $1.3 billion in Q4, and up from negative revenue of $1.47 billion in Q1. Q1 investment income of $1.78 billion was more than double Q4's $768 million, and up from negative investment income of $1.92 billion in Q1 2020.

Total assets under management were $461 billion, up from $456 billion in Q4, with performance fee-generating assets under management up to $82 billion from $69 billion in Q4. Dry powder was $50 billion at the end of the quarter, up from $47 billion in Q4. We've updated our estimate of earnings-per-share to $2.75 following Q1 results.

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	***$2.75***	***$3.51***
DPS	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	***$2.00***	***$2.55***
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 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 $50 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 important, which is currently 3.4%. 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.

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[1] Share count in millions

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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	---	***21.0***	***13.0***
Avg. Yld.	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	***3.4%***	***5.6%***

Apollo has traded as high as 21 times earnings, which is where it sits today. 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 rising over time due to a higher payout, as well as a lower valuation.

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%	---	***73%***	***73%***

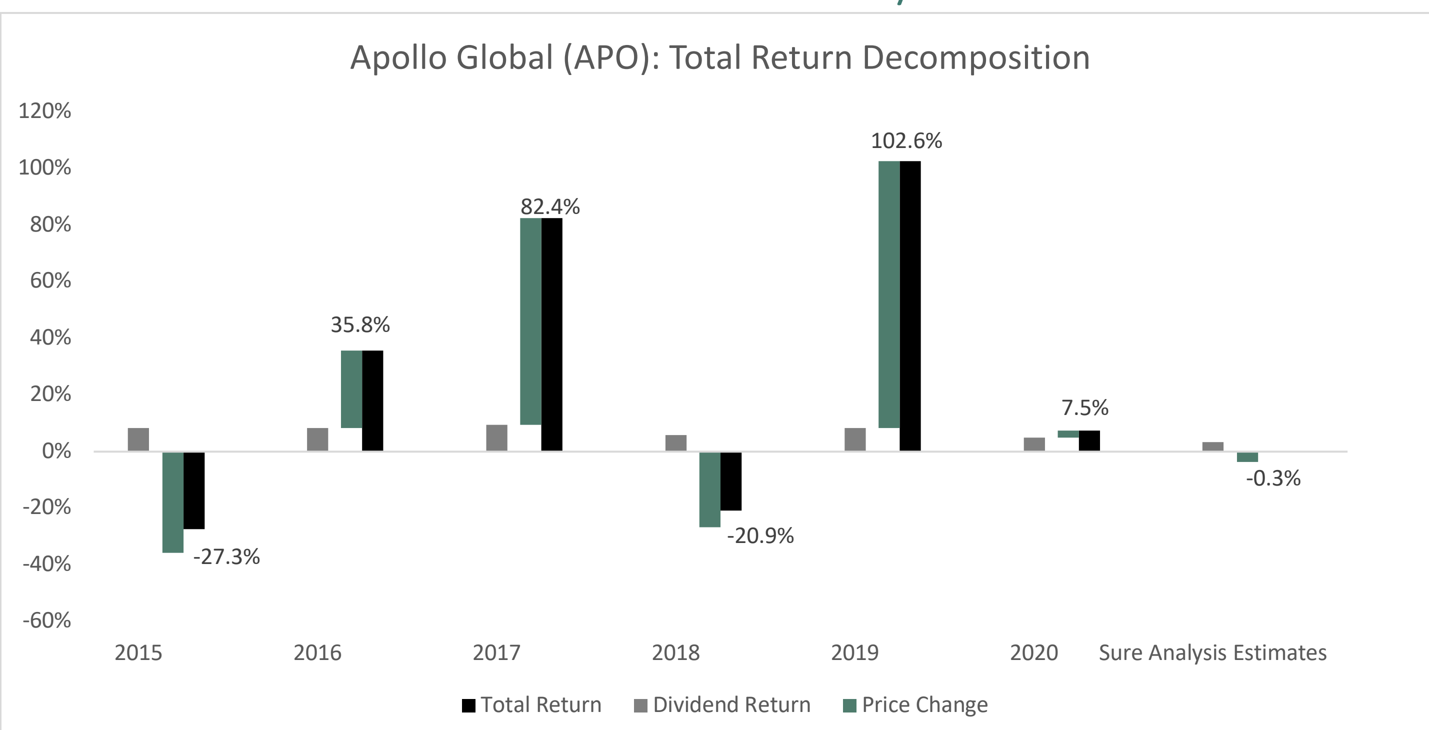
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

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 reiterating Apollo at a sell rating given the recent rally that has made the stock more expensive. We see total annual returns of -0.3% in the years to come, consisting of the 3.4% yield, 5% earnings growth and a big 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	570	730	871	1,166	944	2,074	2,772	1,093	2,932	2,354
Gross Profit	(771)	(1,015)	(723)	425	407	1,224	1,736	518	1,671	1,265
Gross Margin	-135%	-139.0%	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%	53.8%
SG&A Exp.	171	190	222	265	255	247	258	266	330	354
D&A Exp.	26	53	54	45	44	19	18	15	16	19
Operating Profit	(968)	(1,258)	(999)	160	152	977	1,479	252	1,340	911
Op. Margin	-170%	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%	38.7%
Net Profit	(469)	311	659	168	134	403	629	(10)	843	157
Net Margin	-82%	42.6%	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%	6.7%
Free Cash Flow	723	320	1,127	(379)	576	593	851	800	1,043	(1,676)
Income Tax	12	65	108	147	27	91	326	86	(129)	87

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7,976	20,637	22,478	23,173	4,560	5,630	6,991	5,992	8,542	23,669
Cash & Equivalents	912	2,630	2,175	2,295	674	855	844	659	1,602	2,449
Goodwill & Int. Ass.	131	187	144	109	117	112	108	108	115	141
Total Liabilities	5,328	14,933	15,789	17,229	3,171	3,762	4,093	3,540	5,504	18,156
Accounts Payable	34	42	41	44	92	57	69	71	94	120
Long-Term Debt	3,928	12,573	13,174	15,151	1,827	2,139	2,364	2,216	3,501	14,288
Shareholder's Equity	726	2,667	2,637	1,786	650	835	1,199	822	1,298	875
D/E Ratio	5.41	4.71	5.00	8.48	2.81	2.56	1.62	1.61	1.89	10.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%	1.0%
Return on Equity	-107%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%	14.4%
ROIC	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%	1.2%
Shares Out.	124	130	146	163	181	185	195	200	200	228
Revenue/Share	4.89	5.64	6.13	7.51	5.45	11.27	14.39	5.47	14.04	10.35
FCF/Share	6.21	2.47	7.92	(2.44)	3.33	3.23	4.42	4.00	5.00	(7.37)

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