KKR & Co Inc (KKR)

Updated July 19th, 2021 by Derek English

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	1.0%	**Market Cap:**	$50 B
Fair Value Price:	$36	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/17/21[1]
% Fair Value:	161%	**5 Year Valuation Multiple Estimate:**	-9.1%	**Dividend Payment Date:**	09/01/21
Dividend Yield:	1.0%	**5 Year Price Target**	$58	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	7.5%

Overview & Current Events

KKR & Co (NYSE: KKR) is a global investment company founded in 1976. The company currently has over 1500 employees across 16 countries and presently holds assets under management (AUM) of $233 billion. KKR operates in four business lines: Private Markets, Public Markets, Capital Markets, and Principal Activities. KKR manages private equity funds that invest capital for long-term appreciation through the Private Markets business line. The company reports on its credit business in the public markets segment, which invests in leveraged credit strategies such as leveraged loans and high-yield bonds. The capital market segment provides debt and equity services from which they earn fees such as underwriting, placement, transaction and syndication fees, and commissions. Finally, the company's principal activities business line manages the firm's assets on the balance sheet and deploys capital to support the Private Markets and Public Markets business lines.

KKR released Q1 2021 results on 4th May 2021, with results beating expectations. The company reported fee-related earnings of $364 M, which is up 41% year-over-year. At the same time, after-tax distributable earnings were $660 million, an impressive 63% increase year-over-year. AUM increased to $367 billion, up 77% year-over-year, with $15 billion of organic new capital raised in the quarter. The recent acquisition of Global Atlantic contributed $98 billion of AUM.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.73	$2.90	$2.98	$1.84	$1.21	$0.68	$2.38	$1.93	$1.67	$1.78	**$2.40**	**$3.87**
DPS	$0.71	$0.84	$1.62	$2.03	$1.58	$0.64	$0.67	$0.64	$0.50	$0.53	**$0.60**	**$0.66**
Shares	685	731	716	800	851	841	822	833	850	848	**852**	**850**

KKR has grown at an impressive rate since 2004 compared to its peers. While the alternative asset market AUM has grown at 11%, KKR AUM has grown at 22% CAGR. In addition, as the business continues to scale, the Management fees have grown from $732 million to $1.4 billion, representing a 15% CAGR. After-tax Distributable Earnings have grown at 10% CAGR over the last ten years. AUM growth and balance sheet investments will likely drive future earnings growth. Since 2015, KKR repurchased $1.5 billion in shares at an average cost of $20.36 per share. The company will likely continue its repurchase program if the stock price failed to keep pace with earnings growth. KKR's common dividend has fluctuated over the last decade, with the company typically paying out 30% of its after-tax Distributable Earnings. The company prefers to reinvest its cash into its balance sheet investments which have had a 13% return over the last ten years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.1	4.8	6.8	12.6	17.5	20.7	7.9	12.1	15.2	18.0	**24.3**	**15.0**
Avg. Yld.	4.9%	6.0%	8.0%	8.7%	75.0%	4.6%	3.6%	2.7%	2.0%	1.7%	**1.0%**	**1.1%**

KKR's current price to earnings may look a little expensive above 24. However, over the last ten years, the average P/E ratio has been 13.6 and was as low as 7.9 in 2017. The high P/E ratio can be attributable to the surge in share price since

[1] Estimated date

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

March 2020, where it has nearly tripled to just under $60. With AUM constantly growing above its peers, we expect the P/E ratio to return closer to 15 as fee-related revenue increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

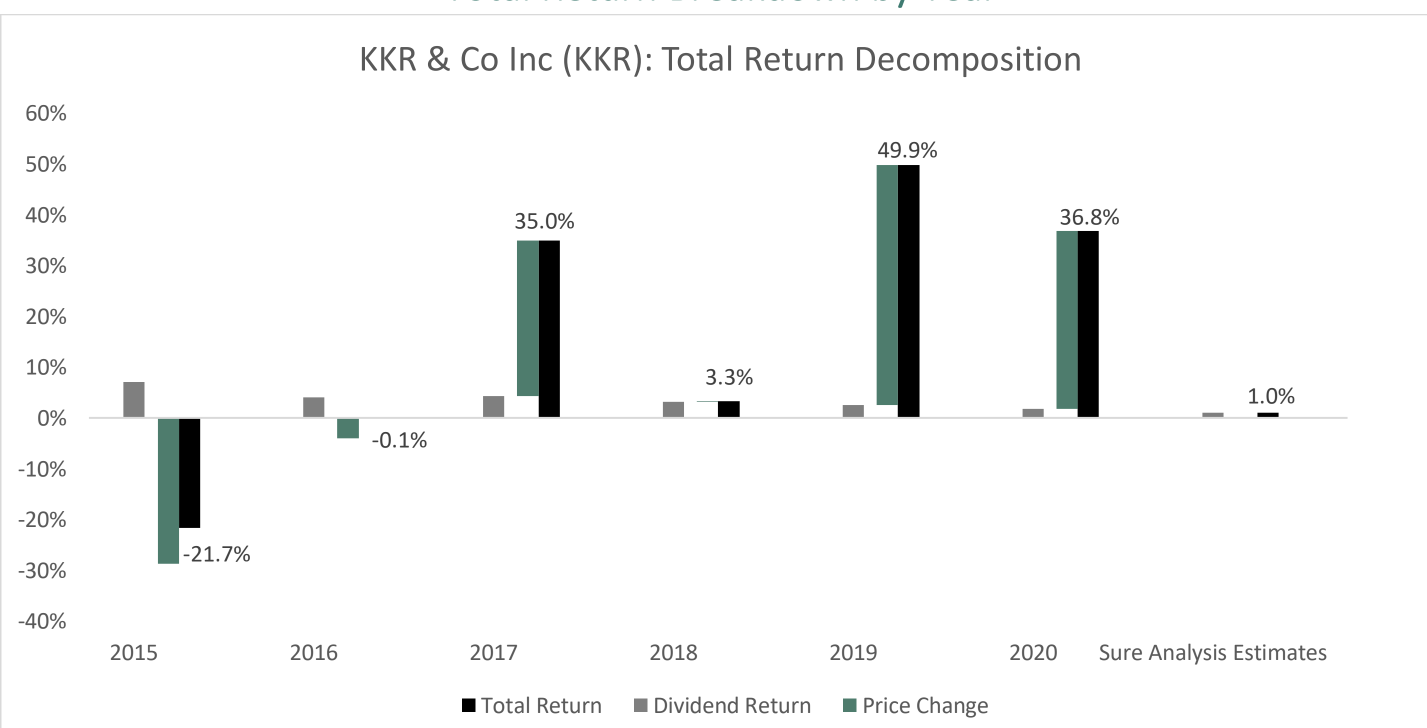
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	97%	29%	54%	110%	131%	94%	28%	33%	30%	30%	**25%**	**17%**

Within the asset management industry, scale and reputation carry more weight than a traditional company. We can see from the rate at which KKR AUM is growing that they have a stellar reputation and the scale of the company allows them to take advantage of regions such as Asia. The company has some significant growth opportunities ahead as they are not in the top 3 for most of their investment strategies. The company is scaling faster than expected as AUM has grown 98% since 2018, including the acquisition of Global Atlantic. However, there are some risks to the company; KKR has benefited from the low interest rate environment over the last decade. Inflation could increase interest rates and negatively impact KKR's current investments. If the valuations of these investments are affected, then the growth in AUM may slow down to the broader market average.

Final Thoughts & Recommendations

KRR has many attributes that make them a strong investment choice for investors seeking decent ROIs. AUM has been growing at double the industry rate, fee-related earnings are growing, and after-tax distributable earnings are also growing. However, these growth rates have not gone unnoticed, and the companies share price has nearly tripled over the 16 months. With a dividend yield of around 1% and a share price and P/E ratio at all-time highs, it is hard to see the same sort of returns that investors have received since 2017. We estimate a total return of 1% at current prices with a fair value price of $36. Therefore, we rate this company a sell for now, and wait for a better entry point if the share price drops below $50.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	724	568	763	1,110	1,044	2,040	3,557	2,396	4,221	4,231
Gross Profit	(145)	(712)	(504)	(154)	(137)	976	1,862	1,021	2,104	2,078
Gross Margin	-20.1%	-125%	-66.1%	-13.9%	-13.1%	47.9%	52.3%	42.6%	49.8%	49.1%
SG&A Exp.	345	318	501	932	691	632	641	715	792	781
Operating Profit	(490)	(1,030)	(1,005)	(1,086)	(827)	345	1,221	306	1,312	1,298
Operating Margin	-67.8%	-181%	-132%	-97.8%	-79.3%	16.9%	34.3%	12.8%	31.1%	30.7%
Net Profit	2	561	691	478	488	309	1,018	1,131	2,005	2,003
Net Margin	0.3%	98.7%	90.6%	43.0%	46.8%	15.2%	28.6%	47.2%	47.5%	47.3%
Free Cash Flow	(227)	6,165	2,563	1,243	120	(1,506)	(3,630)	(7,712)	(5,890)	(6,107)
Income Tax	89	43	38	64	67	25	224	(194)	529	609

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	40378	44426	51427	65873	71042	39003	45835	50743	60899	79807
Cash & Equivalents	1774	1818	1747	2291	2520	4134	3679	2445	3163	6508
Accounts Receivable	30	267	19	56	78	49	138	27	27	76
Goodwill & Int. Ass.	24	286	267	298	266	224	213	84	84	84
Total Liabilities	2969	3483	5470	14469	21763	22517	25782	26483	30397	39007
Accounts Payable	554	874	1228	1220	1311	1103	1373	1054	1567	2047
Long-Term Debt	1565	1123	1909	10838	18715	18544	21194	22341	27013	33424
Shareholder's Equity	1329	2004	2722	5383	5547	5940	7186	8167	10322	12116
D/E Ratio								2.58	2.50	2.44

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.0%	1.3%	1.4%	0.8%	0.7%	0.6%	2.4%	2.3%	3.6%	2.8%
Return on Equity	0.1%	33.7%	29.2%	11.8%	8.9%	5.4%	15.5%	14.7%	21.7%	17.8%
ROIC	0.0%	1.4%	1.6%	0.9%	0.8%	0.7%	3.2%	2.8%	3.9%	3.0%
Shares Out.	685	731	716	800	851	841	822	833	850	848
Revenue/Share	3.25	2.24	2.54	2.69	2.16	4.22	7.03	4.49	7.57	7.25
FCF/Share	(1.02)	24.26	8.54	3.02	0.25	(3.12)	(7.17)	(14.45)	(10.56)	(10.46)

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