



KKR & Co Inc (KKR)

Updated February 8th, 2022 by Derek English

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	10.6%	Market Cap:	\$46 B
Fair Value Price:	\$72	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/18/22
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	03/04/22
Dividend Yield:	0.9%	5 Year Price Target	\$106	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 holds assets under management (AUM) of \$471 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 & Co released fourth-quarter and full year 2021 results on February 8th, 2022. The company doubled its total revenue to \$4 billion for the quarter. The Acquisition of Global Atlantic was the huge driver behind the increase as Insurance contributed nearly \$2 billion. Fee Related earnings was up 45% to \$606 million or \$0.69 per share while after tax distributable earnings were up 158% to \$1.4 billion or \$1.59 a share. AUM increased to \$471 billion, up 87% year-over-year, with \$19 billion of organic new capital raised in the quarter. The company also invested \$23 billion in the quarter.

Focusing on the full year results, the company's total revenue was \$16.2 billions which is nearly 400% more than 2020. Fee related earnings increased 54% to \$2 billion while gross margins increased from 61% to 63%. After tax distributable earnings was up 121% to \$4.44 per share. Growth has been driven by major fundraising activities as organic AUM new capital raised was over \$121 billion compared to \$44 billion in 2020. Perpetual capital, or capital that has no predetermined requirement to return invested capital to investors upon the realization of investments, was \$217 billion. This was an increase from \$55 billion in 2020. Currently 90% of AUM is perpetual capital or has a duration of at least 8 years.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.90	\$2.98	\$1.84	\$1.21	\$0.68	\$2.38	\$1.93	\$1.67	\$2.06	\$4.44	\$4.80	\$7.05
DPS	\$0.84	\$1.62	\$2.03	\$1.58	\$0.64	\$0.67	\$0.64	\$0.50	\$0.53	\$0.58	\$0.62	\$0.68
Shares	731	716	800	851	841	822	833	850	848	850	882	870

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 \$2.1 billion, representing a 11% CAGR. After-tax distributable earnings (DE) have grown at 15% CAGR over the last five years. We expect this to continue growing at around 8% implied by our \$7.05 DE/Share estimate through to 2027. AUM growth and balance sheet investments will likely drive future earnings growth. Since 2015, KKR repurchased \$1.8 billion in shares at an average cost of \$24.48 per share. In Q4 2021 KKR repurchased over 8.1 million shares for around \$600 million. KKR's common dividend has fluctuated over the last decade, with the company typically paying out 30% of its after-tax distributable earnings. We estimate a 2% dividend growth as the company prefers to reinvest or buy back shares to increase shareholder value.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	4.8	6.8	12.6	17.5	20.7	7.9	12.1	15.2	18.0	16.0	13.7	15.0
Avg. Yld.	6.0%	8.0%	8.7%	75.0%	4.6%	3.6%	2.7%	2.0%	1.7%	1.7%	0.9%	0.6%

KKR are trading around its 10-year average P/E ratio of 13.6 and look to be attractively valued with a fair value price 9% above the current \$65 share price. Applying our targeted P/E ratio of 15 for 2027 by our expected DE/share for 2027, we arrive at our five-year price target of \$106, which could mean substantial share price returns despite the low 0.9% dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

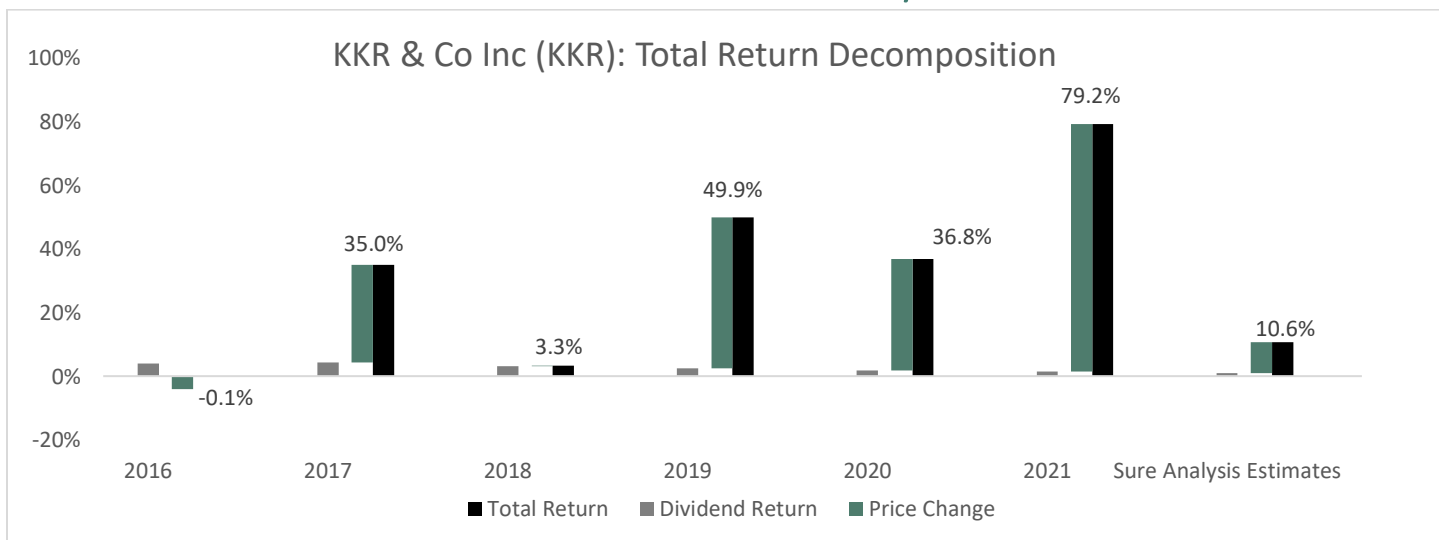
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	54%	110%	131%	94%	28%	33%	30%	26%	13%	13%	10%

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 it is in the top 3 for most of its investment strategies. The company is scaling faster than expected as AUM has grown 98% since 2018, including the acquisition of Global Atlantic. However, the company has some risks; 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

KKR 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 moving higher, and after-tax distributable earnings are also expanding while the acquisition Global Atlantic has dramatically increased revenues. With a dividend yield of less than 1% and a P/E ratio 13.7, We estimate a total return of 10.6% through to 2027. Currently we estimate a fair value price of \$72 and would recommend KKR as a buy at current prices due to projected returns.

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.

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