Apollo Global (APO)

Updated August 27th, 2022, by Josh Arnold

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$32 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/17/22[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	11/28/22
Dividend Yield:	2.9%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 ~$500 billion today. Apollo has about 2,100 employees and the stock trades with a market capitalization of $32 billion.

Apollo reported second quarter earnings on August 4th, 2022, and results were somewhat weaker than expected. Adjusted earnings-per-share were 94 cents, well short of the consensus of $1.02. In addition, that was down from $1.52 in Q1, and $1.14 in the year-ago period.

Revenue was $2.27 billion, and was up from $875 million in Q1, and $1.4 billion in last year's Q2. We note that revenue is extremely volatile for Apollo given the nature of its business so the enormous revenue jump in Q2 isn't necessarily indicative of long-term performance.

Fee-related earnings for Q2 were $341 million, up from $310 million in Q1, and $319 million a year ago. Management fees were $522 million, up from $505 million in Q1, and $469 million a year ago.

Assets under management were $515 billion in Q2, up from $513 billion in Q1, and $472 billion in the year-ago period. This was driven by inflows of $36 billion, including $12 billion from Athene and the previously announced acquisition of Griffin Capital's US asset management business.

We now see $5.30 in earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.82	$4.80	$1.42	$0.96	$2.36	$3.57	-$0.30	$2.71	$0.44	$4.56	***$5.30***	***$7.43***
DPS	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	$2.10	***$1.60***	***$2.04***
Shares[2]	130	146	163	181	185	195	200	200	228	249	***570***	***600***

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 7% 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. We note the company hasn't been aggressively deploying capital up to this point.

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[1] Estimated date

[2] Share count in millions

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Apollo's dividend is important, currently yielding 2.9%. This yield is lower than it has been for substantially all 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. Apollo cut its dividend for the February 2022 payment to 40 cents per share. Apollo's dividend is variable and based upon earnings, so cuts aren't unusual. However, we note the annualized yield is now extremely low based upon the company's history.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	3.7	5.5	18.9	21.4	7.2	7.6	---	12.3	---	13.0	***10.6***	***10.0***
Avg. Yld.	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	3.5%	***2.9%***	***2.7%***

Apollo has traded as high as 21 times earnings but is down to 10.6 today. We see fair value at 10 times earnings, implying a headwind from valuation compression if this were to come to fruition. We see the yield remaining about where it is today, but we reiterate that Apollo's variable dividend makes it challenging to forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	82%	219%	204%	53%	52%	---	75%	---	46%	***30%***	***28%***

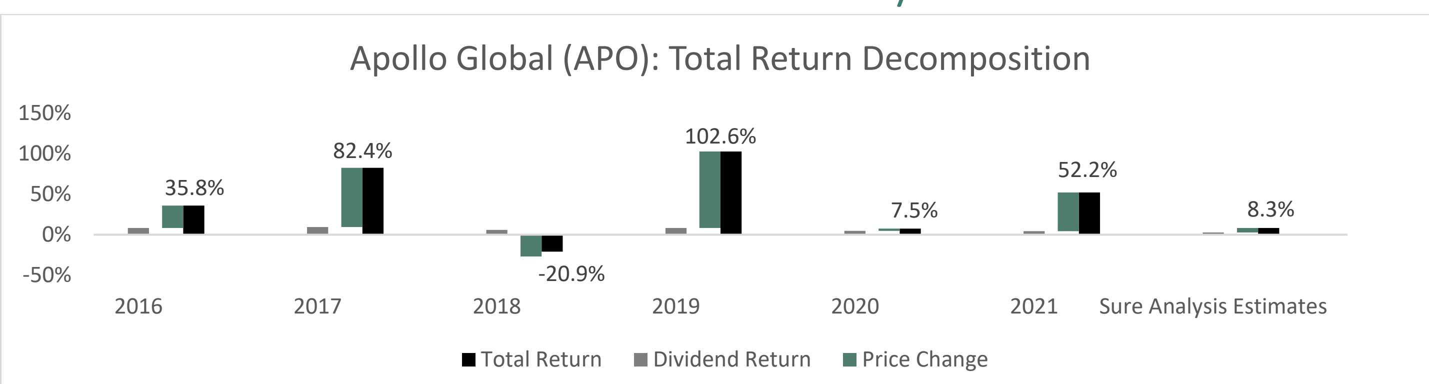
Apollo's dividend policy is to pay out most of the company's earnings to shareholders but note that the company's irregular dividend policy means any particular year may have a very high or very low payout ratio. Volatility in the payout isn't ideal for income investors, so some caution is warranted. The four declared dividends for 2021 came to $2.10, although the most recent dividend was 40 cents per share. This ended the company's four-year streak of dividend increases.

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 forecast total annual returns of 8.3% in the years to come, consisting of the 2.9% yield, 7% earnings growth and a 1.1% headwind from the valuation. Apollo is certainly not for the risk-averse investor, and we see the growth as driving strong potential returns. The dividend yield is quite low based upon the company's historical yields, but shares earn a hold rating given the improvement in the valuation and earnings.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	730	871	1,166	944	2,074	2,772	1,093	2,932	2,354	5,952
Gross Profit	(1,015)	(723)	425	407	1,224	1,736	518	1,671	1,265	2,458
Gross Margin	-139%	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%	53.8%	41.3%
SG&A Exp.	190	222	265	255	247	258	266	330	354	477
D&A Exp.	53	54	45	44	19	18	15	16	19	---
Operating Profit	(1,258)	(999)	160	152	977	1,479	252	1,340	911	1,981
Op. Margin	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%	38.7%	33.3%
Net Profit	311	659	168	134	403	629	(10)	843	157	1,838
Net Margin	42.6%	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%	6.7%	30.9%
Free Cash Flow	320	1,127	(379)	576	593	851	800	1,043	(1,676)	---
Income Tax	65	108	147	27	91	326	86	(129)	87	594

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,637	22,478	23,173	4,560	5,630	6,991	5,992	8,542	23,669	30,502
Cash & Equivalents	2,630	2,175	2,295	674	855	844	659	1,602	2,449	917
Goodwill & Int. Ass.	187	144	109	117	112	108	108	115	141	117
Total Liabilities	14,933	15,789	17,229	3,171	3,762	4,093	3,540	5,504	18,156	18,537
Accounts Payable	42	41	44	92	57	69	71	94	120	145
Long-Term Debt	12,573	13,174	15,151	1,827	2,139	2,364	2,216	3,501	14,288	3,134
Shareholder's Equity	2,667	2,637	1,786	650	835	1,199	822	1,298	875	3,235
LTD/E Ratio	4.71	5.00	8.48	2.81	2.56	1.62	1.61	1.89	10.00	0.83

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%	1.0%	6.8%
Return on Equity	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%	14.4%	89.5%
ROIC	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%	1.2%	10.3%
Shares Out.	130	146	163	181	185	195	200	200	228	237
Revenue/Share	5.64	6.13	7.51	5.45	11.27	14.39	5.47	14.04	10.35	25.16
FCF/Share	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.