



Blackstone Group Inc. (BX)

Updated October 21st, 2022, by Nikolaos Sismanis

++++Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	11.6%	Market Cap:	\$101.2 B
Fair Value Price:	\$86	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/28/22
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	11/07/22
Dividend Yield:	4.3%	5 Year Price Target	\$126	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Blackstone, founded in 1985 by Peter Peterson and Stephen Schwarzman (still CEO), is one of the world's leading investment firms. At the end of Q3 2022, the company held \$950.9 billion in assets under management (AUM), operating in Private Equity (30% of AUM), Real Estate (34%), Credit (28%) and Hedge Fund Solutions (8%). Today the \$101.2 billion market cap company employs about 3,795 people.

Note that the BX ticker previously represented an underlying unitholder interest in Blackstone, with the company acting as a general partner. However, on July 1st, 2019 Blackstone completed its transformation from a publicly traded partnership to a corporation. This move eliminated the Schedule K-1, replacing it with a Form 1099-DIV, and is intended to improve the market for the company's shares. This report marks the company's tenth quarter as a corporation.

On October 20th, 2022, Blackstone reported its Q3-2022 results for the period ending September 30th, 2022. For the quarter, total net realizations equaled \$402.6 million, 60% lower year-over-year. While Blackstone recorded growth of 47.5% in fee-related earnings, realized performance revenues fell by nearly 69% compared to last year. Nevertheless, the company raised a remarkable \$44.8 billion of inflows, despite the ongoing turmoil in capital markets.

Distributable earnings during the quarter equaled \$1.4 billion or \$1.06 per share, which was 16% and 17% lower year-over-year, respectively. Total assets under management equaled \$950.9 billion, up 30% year-over-year, driven by \$337.8 billion in inflows over the past four quarters. Blackstone also declared a quarterly dividend of \$0.90. We now expect FY-2022 distributable EPS to be close to \$5.20 based on the company's year-to-date results and overall momentum.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DEPS	\$1.72	\$3.08	\$3.76	\$1.82	\$2.00	\$2.81	\$2.26	\$2.31	\$2.65	\$4.77	\$5.20	\$7.64
DPS	\$0.52	\$1.18	\$1.92	\$2.90	\$1.66	\$2.32	\$2.42	\$1.92	\$2.26	\$4.06	\$3.60	\$4.17
Shares¹	556	573	596	624	643	659	663	680	684	732	721	700

Note that the table above shows earnings-per-unit, distributions-per-unit and units outstanding through 2018, reflecting the previous partnership format. In addition, Blackstone had previously reported economic net income, but is no longer doing so. With the transition to a corporation complete, we are using distributable earnings as our baseline.

Blackstone's performance fees tend to be lumpy, which in turn leads to irregular results. From 2010 through 2018, earnings-per-unit grew by a compound average rate of 7.6% per annum, however this varied widely from \$1.26 all the way up to \$3.76 and back down to \$2.26. Regardless, we remain optimistic based on Blackstone's ongoing momentum and \$182 billion in "dry powder capital" set to deploy – a new record for the company based on its latest results.

Following Blackstone's performance trajectory and market dynamics, we expect an 8% distributable EPS CAGR in the medium term, which implies a substantial deceleration from Blackstone's sequential growth and record results over the past few quarters. We remain prudent, nonetheless, as the underlying market conditions can easily sway Blackstone's

¹ In millions.

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performance. Alongside a lumpy earnings pattern, the distribution/dividend has been up and down as well. Our estimate uses the next-twelve-month payout of \$3.60 is sourced from the most recent \$0.90 dividend declaration's run rate.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.3	7.4	8.6	20.2	13.2	11.3	14.9	14.4	18.6	23.7	16.2	16.5
Avg. Yld.	3.6%	5.2%	5.9%	7.9%	6.3%	7.3%	7.2%	4.4%	3.9%	4.0%	4.3%	3.3%

We are using a fair value multiple of 16.5 times earnings taking into consideration the transformation from a partnership to a corporation, along with the security's uneven history and favorably evolving growth prospects. With shares presently trading at 16.2 times our estimated earnings, we find Blackstone more or less fairly valued. Meanwhile, the 4.3% dividend yield will contribute to returns, but we do note that while the dividend appears solid, it can fluctuate significantly from quarter to quarter.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	38%	51%	159%	83%	83%	107%	83%	85%	85%	69%	55%

Blackstone did not fare particularly well during the last recession, posting a loss of -\$1.03 per unit in 2008. Moreover, the distribution went from \$1.20 in 2008 down to \$0.90 in 2009 and \$0.60 in 2010. However, the company recovered well, generating solid growth from 2009 through 2014. Recently results have been rapidly accelerating.

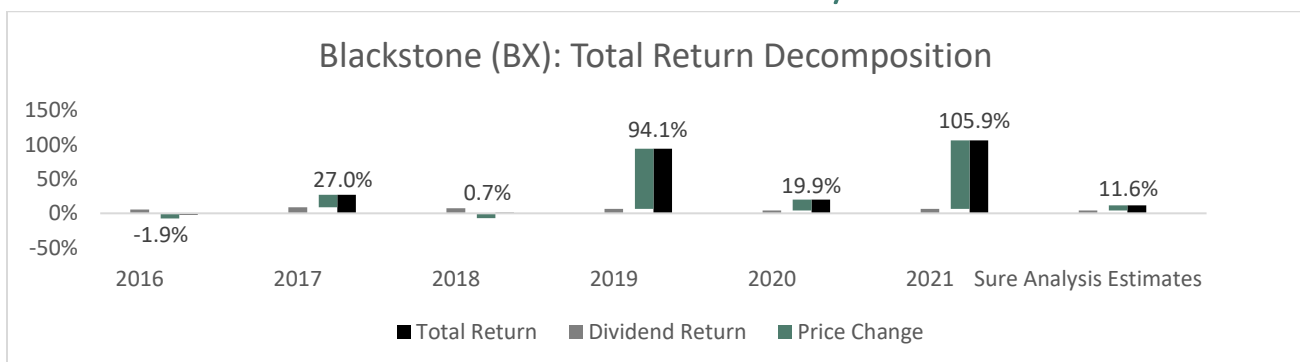
The company does possess a competitive advantage in that it is the largest alternative investment firm in the world. If you're looking to invest outside of the conventional equity space, which is a trend that has been going on for some time, Blackstone has a leading seat at the table; especially for large institutional firms looking for stability.

As of its latest results, Blackstone held \$8.7 billion in cash and equivalents and \$18.1 billion in cash and net investments, or \$14.99 per share. Blackstone has a \$4.1 billion undrawn credit revolver and maintains A+ ratings from S&P and Fitch.

Final Thoughts & Recommendation

Blackstone's shares have corrected substantially year-to-date amid a tough macro environment, despite delivering relatively robust results. The company has built itself into a leading alternative asset manager, an area that has grown in recent years and has not yet been subjected to the "race to the bottom" as it relates to fee income. Its alternative profile is also the reason the company has been attracting inflows in the current environment, which is unlike the case of its industry peers. Still, expect volatile results and drawdowns during recessions. Total return potential comes in at 11.6% per annum, stemming from our distributable EPS and DPS growth estimates, the dividend yield, and the possibility for a humble valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4019	6613	7485	4647	5051	7005	6661	6861	5966	16650
SG&A Exp.	3188	3759	3734	2946	594	621	673	673	725	928
D&A Exp.	139	96	102	101	83	47	59	59	71	75
Operating Profit	219	1171	1585	710	1039	1471	1542	1542	1045	5857
Op. Margin	5.4%	17.7%	21.2%	15.3%	20.6%	21.0%	23.1%	22.5%	17.5%	35.2%
Free Cash Flow	546	3522	1625	2338	-110	-1651	27	27	1824	3922
Income Tax	185	256	291	190	132	743	249	249	356	1184

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	28932	29679	31497	22526	26403	34416	28925	28925	26270	41200
Cash & Equivalents	710	832	1412	1837	1837	1992	2208	2208	1999	2120
Accounts Receivable	638	888	559	613	773	875	636	---	---	---
Goodwill & Int. Ass.	2302	2348	2246	2064	1981	2188	2338	2338	2249	2175
Total Liabilities	17717	15301	14164	10296	13888	20904	15312	15312	11740	19490
Accounts Payable		872	1195	649	1082	2044	876	876	717	937
Long-Term Debt	13051	10467	8924	6117	8866	14815	9952	9952	6342	8714
Shareholder's Equity	8215	9963	11476	9638	9901	6634	6379	6379	6652	9423

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	4.0%	5.2%	2.6%	4.2%	4.8%	4.9%	4.9%	3.6%	17.4%
Return on Equity	2.8%	12.9%	14.8%	6.7%	10.6%	17.8%	23.7%	23.7%	15.3%	72.9%
Shares Out.	556	573	596	624	643	659	670	680	697	720
Revenue/Share	7.46	11.20	12.21	3.91	4.23	10.51	5.52	5.68	8.56	23.12
FCF/Share	1.01	5.96	2.65	1.97	-0.09	-2.48	0.02	0.02	2.62	5.45

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

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