KKR & Co Inc (KKR)

Updated February 20th, 2023 by Derek English

Key Metrics

Current Price:	$57	**5-Year CAGR Estimate:**	11.0%	**Market Cap:**	$49.3 B
Fair Value Price:	$63	**5-Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/16/23
% Fair Value:	91%	**5-Year Valuation Multiple Estimate:**	2.0%	**Dividend Payment Date:**	03/07/23
Dividend Yield:	1.1%	**5-Year Price Target**	$93	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

KKR & Co (NYSE: KKR) is a global investment company founded in 1976. The company has over 1500 employees across 16 countries and holds assets under management (AUM) of $496 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 results on February 7th, 2023. Fee-related earnings were down 8% to $559 million, or $0.63 per share, while after-tax distributable earnings were down 41% to $882 million, or $0.92 a share. The company's lower-than-expected fee-related earnings are mainly due to lower fees generated in the capital market segment. AUM increased to $504 billion, up 7% year-over-year, with $16 billion of organic new capital raised in the quarter.

In total, the company invested $16 billion during this quarter which now totals $71 billion over the last 12 months. Perpetual capital, or capital with no predetermined requirement to return invested capital to investors upon the realization of investments, represented 38% of AUM and was up 21% to $194 billion. The growth of Global Atlantic and the acquisition of KJRM are the primary drivers behind the increase in perpetual capital. The company intends to announce a dividend increase to $0.66 with the Q1 results in March 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.98	$1.84	$1.21	$0.68	$2.38	$1.93	$1.67	$2.06	$4.44	$3.90	***$4.21***	***$6.19***
DPS	$1.62	$2.03	$1.58	$0.64	$0.67	$0.64	$0.50	$0.53	$0.57	$0.62	***$0.66***	***$0.73***
Shares	716	800	851	841	822	833	850	848	633	633	***633***	***600***

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 an 11% CAGR. Over the last five years, after-tax distributable earnings (DE) have grown at 16.9% CAGR. We expect this to grow at around 8%, as implied by our $6.19 DE/Share estimate for 2028. AUM growth and balance sheet investments will likely drive future earnings growth.

Since 2015, KKR has repurchased $1.8 billion in shares at an average cost of $24.48 per share. In Q4 2022, KKR repurchased over 5.2 million shares for around $412 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. The company declared its fourth quarter dividend of $0.155, payable on March 7th, 2023. The company also intends to increase the annualized dividend to $0.66 from $0.62 for 2023.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	6.8	12.6	17.5	20.7	7.9	12.1	15.2	18.0	16.0	12.0	***13.6***	***15.0***
Avg. Yld.	8.0%	8.7%	75.0%	4.6%	3.6%	2.7%	2.0%	1.7%	1.7%	1.3%	***1.1%***	***0.8%***

KKR is trading below its 10-year average P/E ratio of 13.9 and looks to be attractively valued with a fair value price of $63 compared with the current $57 share price. Applying our targeted P/E ratio of 15 for 2028 and our expected $6.19 DE/share for 2028, we arrive at our five-year price target of $93, which could mean substantial share price returns before the contribution from the 1.1% dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

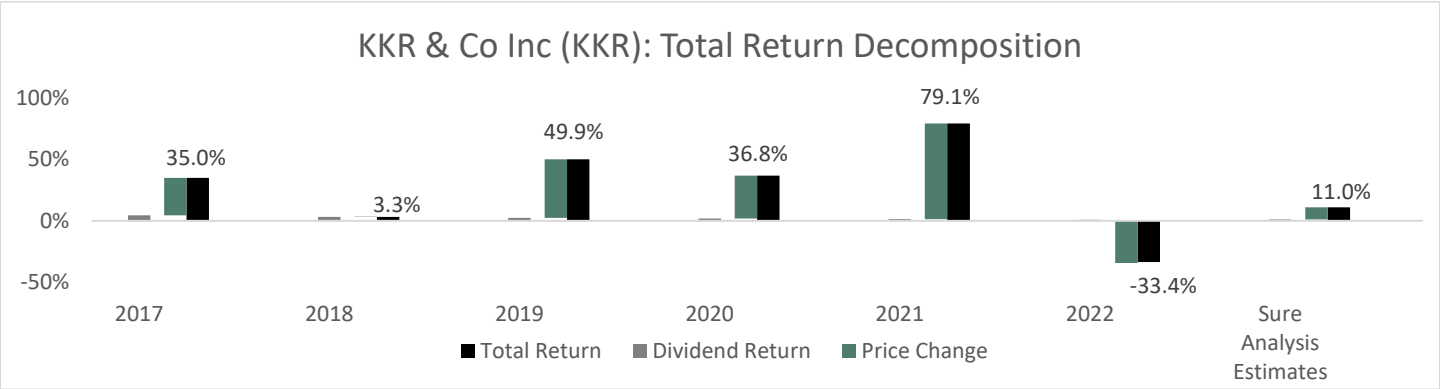
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	54%	110%	131%	94%	28%	33%	30%	26%	13%	16%	***16%***	***12%***

Scale and reputation carry more weight within the asset management industry than in a traditional company. We can see from the rate at which KKR AUM is growing that they have a stellar reputation, and the company's scale allows them to take advantage of regions such as Asia. The company has significant growth opportunities ahead as it is in the top 3 for most of its investment strategies. On April 28th, 2022, the company closed the acquisition of KJR management, one of Japan's largest real estate asset managers, for ~$1.8 billion. The company is scaling faster than expected, as AUM has grown 98% since 2018, including acquiring 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

KRR has many attributes that make the company a strong investment choice for investors seeking decent returns on investment. AUM has been growing at double the industry rate, fee-related earnings are increasing, and after-tax distributable earnings are also expanding. In addition, the acquisition of Global Atlantic has dramatically increased revenues. With an expected growth rate of 8%, a dividend yield of 1.1%, and projected tailwinds from multiple expansion, we estimate a total return of 11% through 2028. Currently, we 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	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	763	1,110	1,044	2,040	3,557	2,396	4,221	4,231	16,240
Gross Profit	(504)	(154)	(137)	976	1,862	1,021	2,104	2,078	6,752
Gross Margin	-66.1%	-13.9%	-13.1%	47.9%	52.3%	42.6%	49.8%	49.1%	41.6%
SG&A Exp.	501	932	691	632	641	715	792	781	1,942
Operating Profit	(1,005)	(1,086)	(827)	345	1,221	306	1,312	1,298	4,809
Operating Margin	-132%	-97.8%	-79.3%	16.9%	34.3%	12.8%	31.1%	30.7%	29.6%
Net Profit	691	478	488	309	1,018	1,131	2,005	2,003	4,666
Net Margin	90.6%	43.0%	46.8%	15.2%	28.6%	47.2%	47.5%	47.3%	28.7%
Free Cash Flow	2,563	1,243	120	(1,506)	(3,630)	(7,712)	(5,890)	(6,107)	(7,279)
Income Tax	38	64	67	25	224	(194)	529	609	1,353

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	51427	65873	71042	39003	45835	50743	60899	79807	264290
Cash & Equivalents	1747	2291	2520	4134	3679	2445	3163	6508	10090
Accounts Receivable	19	56	78	49	138	27	27	76	168
Goodwill & Int. Ass.	267	298	266	224	213	84	84	84	2,286
Total Liabilities	5470	14469	21763	22517	25782	26483	30397	39007	206150
Accounts Payable	1228	1220	1311	1103	1373	1054	1567	2047	3864
Long-Term Debt	1909	10838	18715	18544	21194	22341	27013	33424	38888
Shareholder's Equity	2722	5383	5547	5940	7186	8167	10322	12116	16460
LTD/E Ratio						2.58	2.50	2.44	2.21

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	0.8%	0.7%	0.6%	2.4%	2.3%	3.6%	2.8%	2.7%
Return on Equity	29.2%	11.8%	8.9%	5.4%	15.5%	14.7%	21.7%	17.8%	32.7%
ROIC	1.6%	0.9%	0.8%	0.7%	3.2%	2.8%	3.9%	3.0%	5.5%
Shares Out.	716	800	851	841	822	833	850	848	633
Revenue/Share	2.54	2.69	2.16	4.22	7.03	4.49	7.57	7.25	25.65
FCF/Share	8.54	3.02	0.25	(3.12)	(7.17)	(14.45)	(10.56)	(10.46)	(11.50)

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

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