



KKR & Co Inc (KKR)

Updated November 7th, 2023 by Derek English

Key Metrics

Current Price:	\$62.50	5-Year CAGR Estimate:	9.0%	Market Cap:	\$50.9 B
Fair Value Price:	\$63	5-Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/17/23
% Fair Value:	99%	5-Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	12/01/23
Dividend Yield:	1.1%	5-Year Price Target	\$93	Years Of Dividend Growth:	4
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

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 third-quarter results on November 7th, 2023. Fee-related earnings increased by 3% to \$558 million, equivalent to \$0.63 per share. However, after-tax distributable earnings experienced a decline of 7% to \$780 million, or \$0.88 per share. The company's fee-related earnings decline was primarily attributed to the impact of higher interest rates, increasing inflation, and sustained market volatility, which continued to restrict the possibilities for mergers and acquisitions activity. The Assets Under Management (AUM) saw a 6% year-over-year increase, reaching \$528 billion, with \$14 billion of organic new capital raised during the quarter. Perpetual capital, or capital with no predetermined requirement to return invested capital to investors upon the realization of investments, represented 39% of AUM and was up 9% to \$204 billion. The growth of Global Atlantic and the acquisition of KJRM continue to be the primary drivers behind the increase in perpetual capital.

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 Q3 2023, KKR repurchased over 5.9 million shares for around \$292 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 third quarter dividend of \$0.165, payable on December 1st, 2023. The company also increased 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	14.8	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 around its 10-year average P/E ratio of ~14 and looks to be fairly valued with a fair value price of \$63 compared with the current \$62.50 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

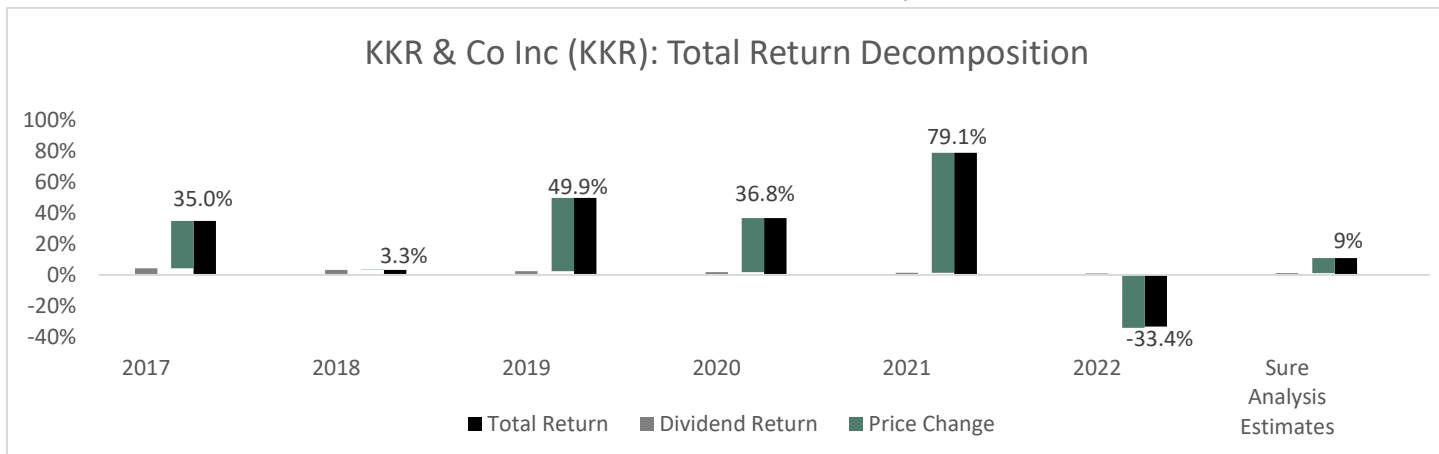
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	54%	110%	131%	94%	28%	33%	30%	26%	13%	16%	16%	12%

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

KKR boasts a range of attributes that position it as a strong investment option for those seeking favorable returns. AUM has consistently outpaced industry growth, while fee-related earnings exhibit a positive upward trend. Moreover, the acquisition of Global Atlantic has significantly bolstered the company's revenue streams. Projections indicate an anticipated growth rate of 8%, complemented by a 1.1% dividend yield and potential tailwinds from multiple expansion, resulting in a projected total return of 9.0% by 2028. Given its recent price increase from approximately ~49 to \$62.50, we currently have a hold rating on KKR.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,110	1,044	2,040	3,557	2,396	4,221	4,231	16,240	5,721
Gross Profit	(154)	(137)	976	1,862	1,021	2,104	2,078	6,752	1,392
Gross Margin	-13.9%	-13.1%	47.9%	52.3%	42.6%	49.8%	49.1%	41.6%	24.3%
SG&A Exp.	932	691	632	641	715	792	781	1,942	2,355
Operating Profit	(1,086)	(827)	345	1,221	306	1,312	1,298	4,809	(962)
Operating Margin	-97.8%	-79.3%	16.9%	34.3%	12.8%	31.1%	30.7%	29.6%	(16.8%)
Net Profit	478	488	309	1,018	1,131	2,005	2,003	4,666	(841)
Net Margin	43.0%	46.8%	15.2%	28.6%	47.2%	47.5%	47.3%	28.7%	(14.7%)
Free Cash Flow	1,243	120	(1,506)	(3,630)	(7,712)	(5,890)	(6,107)	(7,279)	(5,364)
Income Tax	64	67	25	224	(194)	529	609	1,353	(36)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	65873	71042	39003	45835	50743	60899	79807	264290	277080
Cash & Equivalents	2291	2520	4134	3679	2445	3163	6508	10090	12820
Accounts Receivable	56	78	49	138	27	27	76	168	168
Goodwill & Int. Ass.	298	266	224	213	84	84	84	2,286	4,843
Total Liabilities	14469	21763	22517	25782	26483	30397	39007	206150	223420
Accounts Payable	1220	1311	1103	1373	1054	1567	2047	3864	2115
Long-Term Debt	10838	18715	18544	21194	22341	27013	33424	38888	43530
Shareholder's Equity	5383	5547	5940	7186	8167	10322	12116	16460	16610
LTD/E Ratio					2.58	2.50	2.44	2.21	2.46

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.7%	0.6%	2.4%	2.3%	3.6%	2.8%	2.7%	(0.31%)
Return on Equity	11.8%	8.9%	5.4%	15.5%	14.7%	21.7%	17.8%	32.7%	(5.1%)
ROIC	0.9%	0.8%	0.7%	3.2%	2.8%	3.9%	3.0%	5.5%	(0.9%)
Shares Out.	800	851	841	822	833	850	848	633	750
Revenue/Share	2.69	2.16	4.22	7.03	4.49	7.57	7.25	25.65	7.63
FCF/Share	3.02	0.25	(3.12)	(7.17)	(14.45)	(10.56)	(10.46)	(11.50)	(7.16)

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

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