Apollo Global (APO)

Updated February 11th, 2024, by Josh Arnold

Key Metrics

Current Price:	$110	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$62 B
Fair Value Price:	$102	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	02/16/24
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	02/29/24
Dividend Yield:	1.6%	**5 Year Price Target**	$180	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Buy

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 ~$650 billion today. Apollo has about 2,500 employees and the stock trades with a market capitalization of $62 billion.

Apollo posted fourth quarter and full-year earnings on February 8th, 2024, and results were very strong once again. Adjusted earnings-per-share came to $1.91, which handily beat estimates of $1.72. That was also up sharply from $1.51 in the year-ago period, and $1.71 in Q3.

Revenue for the quarter was $11 billion, including $2.62 billion of investment gains, and $3.59 billion in premiums. Net investment income rose to $3.35 billion from just $2.488 billion a year ago, and up nicely from $3.17 billion in the prior quarter.

Total assets under management rose to $651 billion from $631 billion. Inflows were $32 billion, essentially equal with inflows of $33 billion in Q3. The company originated $30 billion in debt and deployed $45 billion in gross capital during the quarter.

Total expenses were $9.18 billion, up enormously from all prior periods. The bulk of the increase was future policy and other policy benefits costs.

Dry powder stands at $58 billion, down fractionally from Q3. We start 2024 with an estimate of $7.85 in earnings-per-share as Apollo's performance continues to strengthen.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.42	$0.96	$2.36	$3.57	-$0.30	$2.71	$0.44	$4.56	$5.21	$6.74	***$7.85***	***$13.83***
DPS	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	$2.10	$1.60	$1.69	***$1.72***	***$2.20***
Shares[1]	163	181	185	195	200	200	228	249	570	568	***566***	***560***

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 12% 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 into 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 measured in tens of billions of dollars, so we see this as a tailwind for growth when this money is eventually deployed, particularly if deployments are made at favorable prices. The company has been deploying its capital quite swiftly, but it's seeing massive inflows all the time, so dry powder remains high.

[1] Share count in millions

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Apollo's dividend is important, currently yielding 1.6%. 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'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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.9	21.4	7.2	7.6	---	12.3	---	13.0	12.2	13.8	***14.0***	***13.0***
Avg. Yld.	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	3.5%	2.5%	1.8%	***1.6%***	***1.2%***

Apollo has traded as high as 21 times earnings but is down to 14 today. We see fair value at 13 times earnings, implying a slight headwind from valuation contraction 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	219%	204%	53%	52%	---	75%	---	46%	31%	25%	***22%***	***16%***

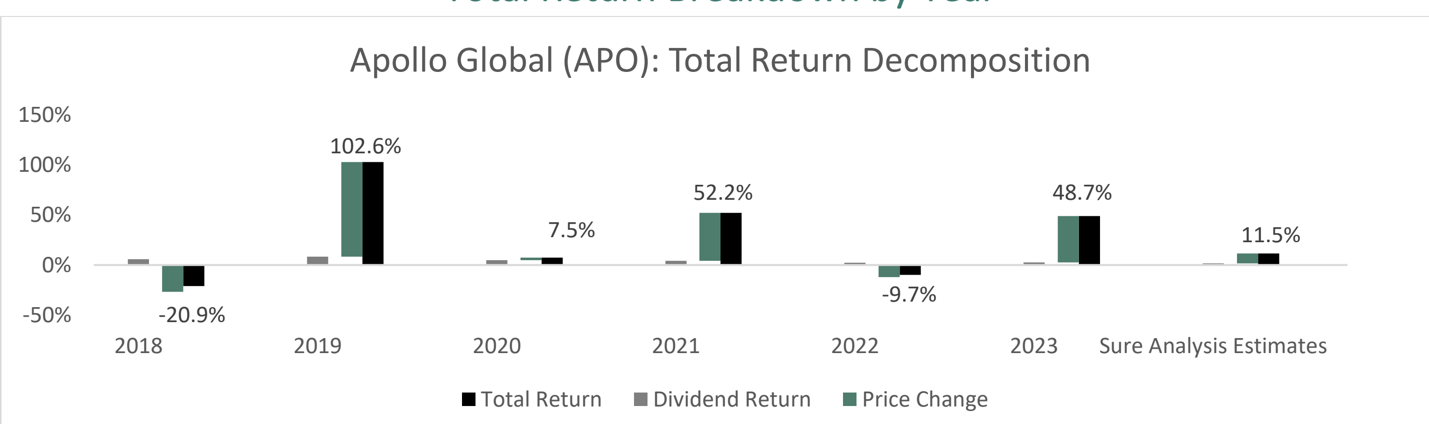
Apollo's dividend policy is to pay out most of the company's earnings to shareholders but note that the company's irregular dividend policy means any particular year may have a very high or very low payout ratio. Volatility in the payout isn't ideal for income investors, so some caution is warranted. Apollo raised the payout for May 2023, but as we mentioned, that does not mean that level will be maintained.

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 11.5% in the years to come, consisting of the 1.6% yield, 12% earnings growth and a 1.5% 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 buy rating. The valuation has worsened but prospects remain strong for future growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	871	1,166	944	2,074	2,772	1,093	2,932	2,354	5,952	10,968
Gross Profit	(723)	425	407	1,224	1,736	518	1,671	1,265	5,173	10,041
Gross Margin	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%	53.8%	87.0%	91.5%
SG&A Exp.	222	265	255	247	258	266	330	354	477	1,698
D&A Exp.	54	45	44	19	18	15	16	19	27	594
Operating Profit	(999)	160	152	977	1,479	252	1,340	911	1,976	(5,879)
Op. Margin	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%	33.2%	-53.6%
Net Profit	659	168	134	403	629	(10)	843	157	1,838	(3,213)
Net Margin	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%	6.7%	30.9%	-29.3%
Free Cash Flow	1,127	(379)	576	593	851	800	1,043	(1,676)	1064	3789
Income Tax	108	147	27	91	326	86	(129)	87	594	(1,069)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	22,478	23,173	4,560	5,630	6,991	5,992	8,542	23,669	30,502	259,333
Cash & Equivalents	2,175	2,295	674	855	844	659	1,602	2,449	1,380	9,452
Goodwill & Int. Ass.	144	109	117	112	108	108	115	141	117	4,322
Total Liabilities	15,789	17,229	3,171	3,762	4,093	3,540	5,504	18,156	18,537	252,104
Accounts Payable	41	44	92	57	69	71	94	120	2,847	2,975
Long-Term Debt	13,174	15,151	1,827	2,139	2,364	2,216	3,501	14,288	13,688	6,522
Shareholder's Equity	2,637	1,786	650	835	1,199	822	1,298	875	3,235	397
LTD/E Ratio	5.00	8.48	2.81	2.56	1.62	1.61	1.89	10.00	3.61	16.43

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%	1.0%	6.8%	-2.2%
Return on Equity	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%	14.4%	89.5%	-176%
ROIC	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%	1.2%	8.0%	-16.3%
Shares Out.	146	163	181	185	195	200	200	228	237	585
Revenue/Share	6.13	7.51	5.45	11.27	14.39	5.47	14.04	10.35	25.16	18.76
FCF/Share	7.92	(2.44)	3.33	3.23	4.42	4.00	5.00	(7.37)	4.50	6.48

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