Apollo Global (APO)

Updated August 18th, 2024, by Josh Arnold

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$63 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	11/16/24[1]
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	11/30/24
Dividend Yield:	1.7%	**5 Year Price Target**	$163	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**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 ~$700 billion today. Apollo has about 2,500 employees and the stock trades with a market capitalization of $63 billion.

Apollo posted second quarter earnings on August 1st, 2024, and results were worse than expected, causing shares to fall on the news. Adjusted earnings-per-share came to $1.64, which was 11 cents light of estimates. Revenue was off more than half from the year-ago period to $6.02 billion, but we note that revenue is extremely volatile for Apollo given the nature of its business. Management did note that record fee-related earnings and strong momentum in asset management weren't enough to offset falling profits from Athene.

Assets under management rose to $696 billion, up from $617 billion a year ago. Inflows were $39 billion in Q2, with inflows coming to $144 billion in the past year.

Fee-related earnings were $516 million, up from $442 million a year ago. Spread-related earnings were $710 million, down from $799 million a year ago.

Athene annuities saw profit decline 11% year-over-year to $710 million, which was driven by a slump in income from alternative investments.

Dry powder came to $68 billion, including a record $55 billion of dry powder with future management fee potential, of which about 80% is in the yield and hybrid portfolios.

We've reduced our estimate of earnings to $7.10 per share for this year after Q2 results.

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	***$7.10***	***$12.51***
DPS	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	$2.10	$1.60	$1.69	***$1.85***	***$2.36***
Shares[2]	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

[1] Estimated date

[2] Share count in millions

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.

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.

Apollo's dividend is important, currently yielding 1.7%. 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 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	***15.6***	***13.0***
Avg. Yld.	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	3.5%	2.5%	1.8%	***1.7%***	***1.5%***

Apollo has traded as high as 21 times earnings but is down to 15.6 today. We see fair value at 13 times earnings, implying a 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%	***26%***	***19%***

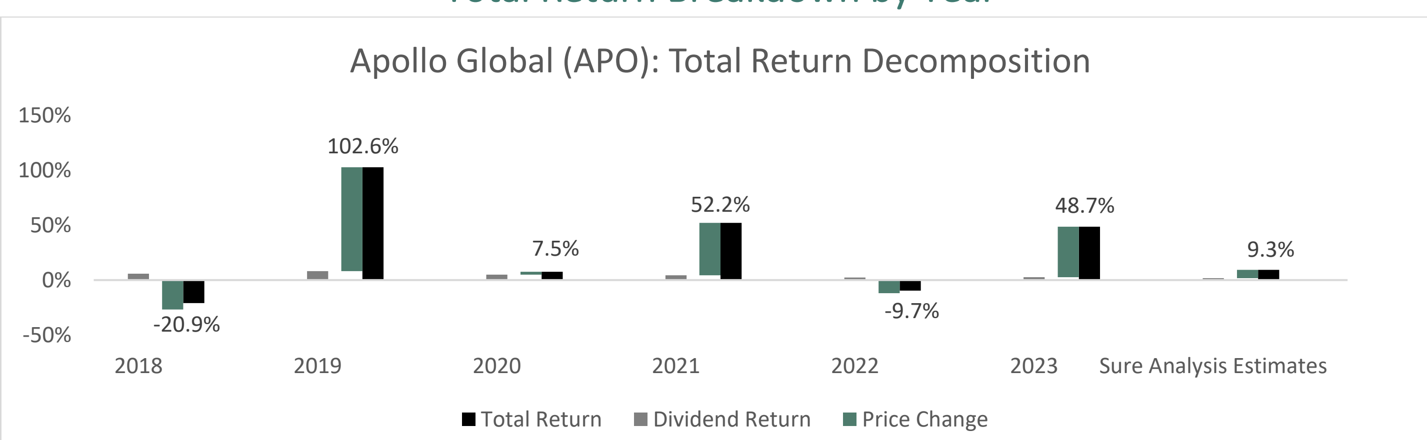
Apollo's dividend policy is to pay out most of the company's earnings to shareholders but note that the company's irregular dividend policy means any particular year may have a very high or very low payout ratio. Volatility in the payout isn't ideal for income investors, so some caution is warranted. 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 9.3% in the years to come, consisting of the 1.7% yield, 12% earnings growth and a 3.6% headwind from the valuation. Apollo is certainly not for the risk-averse investor, and we see the growth as driving good potential returns. The dividend yield is quite low based upon the company's historical yields, and shares earn a hold rating. The yield is unattractive, as is the valuation, but growth should be strong.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,166	944	2,074	2,772	1,093	2,932	2,354	5,952	10,968	32,644
Gross Profit	425	407	1,224	1,736	518	1,671	1,265	5,173	10,041	31,617
Gross Margin	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%	53.8%	87.0%	91.5%	96.9%
SG&A Exp.	265	255	247	258	266	330	354	477	1,698	2,567
D&A Exp.	45	44	19	18	15	16	19	27	594	803
Operating Profit	160	152	977	1,479	252	1,340	911	1,976	(5,879)	6,146
Op. Margin	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%	33.2%	-53.6%	18.8%
Net Profit	168	134	403	629	(10)	843	157	1,838	(3,213)	5,047
Net Margin	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%	6.7%	30.9%	-29.3%	15.5%
Free Cash Flow	(379)	576	593	851	800	1,043	(1,676)	1064	3789	6,322
Income Tax	147	27	91	326	86	(129)	87	594	(1,069)	-923

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	23,173	4,560	5,630	6,991	5,992	8,542	23,669	30,502	259,333	313,488
Cash & Equivalents	2,295	674	855	844	659	1,602	2,449	1,380	9,452	15,928
Goodwill & Int. Ass.	109	117	112	108	108	115	141	117	4,322	4,329
Total Liabilities	17,229	3,171	3,762	4,093	3,540	5,504	18,156	18,537	252,104	28,8243
Accounts Payable	44	92	57	69	71	94	120	2,847	2,975	3,338
Long-Term Debt	15,151	1,827	2,139	2,364	2,216	3,501	14,288	13,688	6,522	8,092
Shareholder's Equity	1,786	650	835	1,199	822	1,298	875	3,235	397	12,646
LTD/E Ratio	8.48	2.81	2.56	1.62	1.61	1.89	10.00	3.61	16.43	0.58

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%	1.0%	6.8%	-2.2%	1.8%
Return on Equity	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%	14.4%	89.5%	-176%	24.8%
ROIC	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%	1.2%	8.0%	-16.3%	18.3%
Shares Out.	163	181	185	195	200	200	228	237	585	589
Revenue/Share	7.51	5.45	11.27	14.39	5.47	14.04	10.35	25.16	18.76	55.44
FCF/Share	(2.44)	3.33	3.23	4.42	4.00	5.00	(7.37)	4.50	6.48	10.74

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