KKR & Co Inc (KKR)

Updated October 31st,2024 by Derek English

Key Metrics

Current Price:	$138	**5-Year CAGR Estimate:**	-7.1%	**Market Cap:**	$124.4 B
Fair Value Price:	$62	**5-Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/04/24
% Fair Value:	222%	**5-Year Valuation Multiple Estimate:**	-14.7%	**Dividend Payment Date:**	11/19/24
Dividend Yield:	0.5%	**5-Year Price Target**	$92	**Years Of Dividend Growth:**	5
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 on 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 Q3 results on October 24th, 2024. In Q3, KKR reported Fee Related Earnings of $1 billion, marking a 79% increase year-over-year, and total operating earnings of $1.3 billion, a 71% increase. The rise in total operating earnings was largely driven by growth in fee-paying assets under management and increased transaction and monitoring fees. Adjusted net income reached $1.2 billion, up 58%. KKR's assets under management grew by 18% from the previous quarter to $624 billion, with fee-paying assets under management also up 19% to $506 billion. New capital raised in Q3 was $24 billion, contributing to $118 billion in the last twelve months. Capital investments were strong, with $24 billion invested.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.84	$1.21	$0.68	$2.38	$1.93	$1.67	$2.06	$4.44	$3.90	$3.42	***$3.90***	***$5.73***
DPS	$2.03	$1.58	$0.64	$0.67	$0.64	$0.50	$0.53	$0.57	$0.62	$0.65	***$0.70***	***$0.77***
Shares	800	851	841	822	833	850	848	633	633	630	***630***	***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 $2.4 billion. Over the last nine years, after-tax distributable earnings (DE) have grown at 7.1% CAGR. We expect this to grow at around 8%, as implied by our $5.73 DE/Share estimate for 2029. AUM growth and balance sheet investments will likely drive future earnings growth. In 2023, KKR has repurchased $306 million in shares at an average cost of $49.67 per share. KKR's common dividend has fluctuated over the last decade, with the company typically paying out 30% of its after-tax distributable earnings. KKR announced a fifth straight annual dividend increase with a new annualised dividend of $0.70. We estimate a 2% dividend growth as the company prefers to reinvest in the business or buy back shares to increase shareholder value. The company declared its fourth quarter dividend of $0.175, payable on Novemebr 19th , 2024.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2029
Avg. P/E	12.6	12.9	22.6	8.4	10.4	17.8	19.4	16.0	12.0	24.4	***35.4***	***16.0***
Avg. Yld.	8.7%	10.1%	4.2%	3.3%	3.2%	1.7%	1.3%	0.8%	1.3%	0.8%	***0.5%***	***0.8%***

KKR is trading well above its 10-year average P/E ratio of ~16 and looks overvalued due to its recent share price appreciation. We estimate that KKR sits at 222% of our fair value estimate of $62. Applying our targeted P/E ratio of 16 for 2029 and our expected $5.73 DE/share for 2029, we arrive at our five-year price target of $92 which is below the current share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

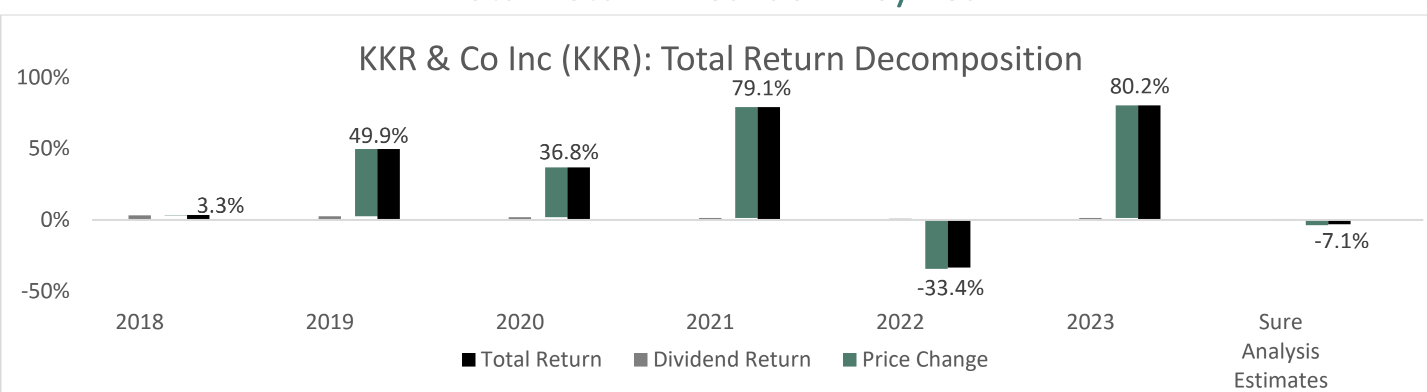
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	110%	131%	94%	28%	33%	30%	26%	13%	16%	19%	***18%***	***13%***

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. 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 AUMs may slow down to the broader market average.

Final Thoughts & Recommendations

KRR boasts a range of attributes that position it as a strong investment option for those seeking favourable returns. AUMs have 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. EPS projections indicate an anticipated growth rate of 8%, complemented by a 0.5% dividend yield. However, given its recent price increase from approximately $62 to $138 and projected returns, we currently have a sell rating on KKR.

Total Return Breakdown by Year



Disclaimer

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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,044	2,040	3,557	2,396	4,221	4,231	16,240	5,721	14,320
Gross Profit	(137)	976	1,862	1,021	2,104	2,078	6,752	1,392	4,861
Gross Margin	-13.1%	47.9%	52.3%	42.6%	49.8%	49.1%	41.6%	24.3%	33.9%
SG&A Exp.	691	632	641	715	792	781	1,942	2,355	2,723
Operating Profit	(827)	345	1,221	306	1,312	1,298	4,809	(962)	2,138
Operating Margin	-79.3%	16.9%	34.3%	12.8%	31.1%	30.7%	29.6%	(16.8%)	14.9%
Net Profit	488	309	1,018	1,131	2,005	2,003	4,666	(841)	3,732
Net Margin	46.8%	15.2%	28.6%	47.2%	47.5%	47.3%	28.7%	(14.7%)	26.1%
Free Cash Flow	120	(1,506)	(3,630)	(7,712)	(5,890)	(6,107)	(7,279)	(5,364)	(1,602)
Income Tax	67	25	224	(194)	529	609	1,353	(36)	1,198

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	71042	39003	45835	50743	60899	79807	264290	277080	317,290
Cash & Equivalents	2520	4134	3679	2445	3163	6508	10090	12820	20,350
Accounts Receivable	78	49	138	27	27	76	168	168	244
Goodwill & Int. Ass.	266	224	213	84	84	84	2,286	4,843	7,394
Total Liabilities	21763	22517	25782	26483	30397	39007	206150	223420	258920
Accounts Payable	1311	1103	1373	1054	1567	2047	3864	2115	2,919
Long-Term Debt	18715	18544	21194	22341	27013	33424	38888	43530	48830
Shareholder's Equity	5547	5940	7186	8167	10322	12116	16460	16610	22860
LTD/E Ratio				2.58	2.50	2.44	2.21	2.46	2.14

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.6%	2.4%	2.3%	3.6%	2.8%	2.7%	(0.31%)	1.3%
Return on Equity	8.9%	5.4%	15.5%	14.7%	21.7%	17.8%	32.7%	(5.1%)	6.6%
ROIC	0.8%	0.7%	3.2%	2.8%	3.9%	3.0%	5.5%	(0.9%)	3.6%
Shares Out.	851	841	822	833	850	848	633	750	912
Revenue/Share	2.16	4.22	7.03	4.49	7.57	7.25	25.65	7.63	15.71
FCF/Share	0.25	(3.12)	(7.17)	(14.45)	(10.56)	(10.46)	(11.50)	(7.16)	(1.76)

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