The Blackstone Group L.P. (NYSE: BX)

Sector: Financials

Blackstone

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
$47.14	$34.72	$34.78	$23.54	17.94x	$41.59 B	6.59%	1.66

Business Description

Blackstone is a leading global alternative investment firm providing asset management services and investment vehicles focused on private equity, real estate, credit, hedge fund solutions, and infrastructure. Blackstone fundraises from institutional investors and deploys capital to invest in assets with upside. Through value-added initiatives, the firm drives price appreciation until they can strategically exit the position and return value to their investors. Management fees are earned based on a percentage of assets under management (AUM) and performance fees are determined based on how the assets perform. Fee-earning AUM drive revenues for investment firms such as Blackstone. The firm is organized as a limited partnership and offers units, rather than shares.

Industry Trends

The prevailing environment has supported profitability, namely in higher asset levels benefitting fee-related earnings (FRE). The largest managers, such as Blackstone, are reaping the greatest rewards and fundraising is at a post-crisis high. Alternative asset managers are seeing limited fee pressure relative to their traditional counterparts and they have found profitable ways to approach this trend. Institutional investors are seeking tailor products for their portfolios allowing for large players to customize vehicles to meet their needs. As global assets continue to rise, alternatives have achieved a market share of 11% and are projected to reach 13% by 2020. The industry is seeing large amounts of undeployed capital, with $900B of dry powder.

Investment Thesis

Blackstone's strong growth of fee-earning AUM will continue to drive both FRE and distributions to unitholders. The strong fundraising environment and $90B in dry powder will serve as tailwinds to drive this growth. A shift towards permanent capital vehicles will offer the firm more control over earnings, with smoother performance and the ability to allow strong investments to deliver more value over longer holding periods. Shifting away from traditional drawdown funds will allow for more value to be delivered to Blackstone's clients. The new $40B infrastructure fund will substantially add to FRE beginning in 2019 while capitalizing on a crucial need in this country.

Valuation Assumptions

WACC: 10.00%
Terminal Dividend Growth: 3.5%
Upside: 35.77%

Key Financials

Current stock price: $34.72
Intrinsic Value: $47.14

Sources: Bloomberg, Charles Schwab, Annual reports

Corporate Social Responsibility

ESG Disclosure Score: 7.02 (Industry Average: 13.42)
Percent Female on Board: 8.33% (Industry Average: 12.33%)
Percentage of Ind. Directors: 58.33% (Industry Average: 54.17%)
CEO Tenure as of FYE: 10.67 (Industry Average: 7.78)

5-Year Stock Performance

Competitive Analysis

Blackstone's main competitors are Apollo Global Management, Oaktree Capital Group, KKR & Co., and the Carlyle Group. These firms compete for the same assets and Blackstone's strength can be seen through the firm's unparalleled fundraising efforts. The closest competitor – Apollo – has $150B less in AUM. Blackstone's suite of vehicles and amount of available capital positions the firm for continued success amongst peers.

Competitive Advantages

With $371B in AUM, Blackstone's competitive advantage lies within their ability to leverage the largest capital base in the industry along with their exceptional operational expertise. With $90B in dry powder, their patient and disciplined nature means that any turn in the cycle will present new opportunities. The firm's extensive relationships allow them to operate on a global scale and the communication between their various business lines supports their mission for responsibly deploying capital.

Risks

Blackstone is exposed to traditional risks within their industry, many of which relate to prevailing asset prices across regions and classes. While their performance does not track public markets, the firm's move towards net asset value fees increases their direct exposure to market performance. Also, the firm's unique business structure carries unique tax implications for investors such as distributions being eligible to be taxed as regular income.

Report Prepared By:

Reilly Cotter and Stephen Mwangi on 10/23/2017