

The Blackstone Group (BX)

\$58.56 (As of 02/24/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

Summary

Shares of Blackstone have outperformed the industry over the past year. The company has impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Its fourth-quarter 2019 results reflect rise in revenues and higher assets under management (AUM) balance. The company remains well poised to gain from its fund-raising ability, revenue mix, persistent asset inflows and inorganic growth initiatives. Also, its transition from a publicly traded partnership to a corporation is expected to help in attracting more investors. However, continuously increasing expenses (mainly owing to higher general and administrative costs) are expected to hamper the bottom line to an extent. Moreover, lower chances of sustainability of the company's capital deployment activities remain a major concern.

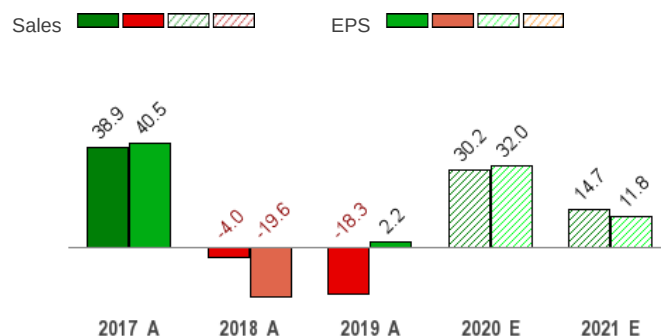
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.97 - \$32.44
20 Day Average Volume (sh)	4,055,594
Market Cap	\$38.6 B
YTD Price Change	4.7%
Beta	1.51
Dividend / Div Yld	\$2.44 / 4.2%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 7% (19 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	12.3%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	04/16/2020
Earnings ESP	-7.7%

P/E TTM	25.4
P/E F1	19.2
PEG F1	1.0
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,337 E
2020	1,685 E	1,789 E	1,904 E	2,110 E	7,267 E
2019	1,095 A	1,323 A	1,372 A	1,792 A	5,581 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.41 E
2020	\$0.64 E	\$0.70 E	\$0.80 E	\$0.92 E	\$3.05 E
2019	\$0.44 A	\$0.57 A	\$0.58 A	\$0.72 A	\$2.31 A

*Quarterly figures may not add up to annual.

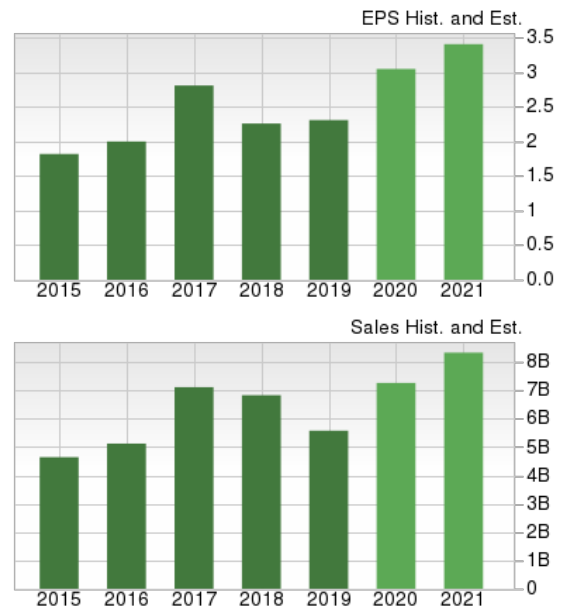
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/24/2020. The reports text is as of 02/25/2020.

Overview

Headquartered in New York, The Blackstone Group Inc. is an asset manager of alternative investments and a provider of financial advisory services. As of Dec 31, 2019, total assets under management were \$571.1 billion.

The company operates its businesses through four segments:

- **The Private Equity** segment comprises management of private equity funds, collectively called the Blackstone Capital Partners (BCP) funds, along with energy and communications-related investments. Also, the segment includes Tactical Opportunities business, Strategic Partners Fund Solutions and Blackstone Total Alternatives Solution. As of Dec 31, 2019, segmental AUM was \$182.9 billion.
- **The Real Estate** segment primarily comprises management of real estate funds called the Blackstone Real Estate Partners (BREP) funds. In addition, the segment has two other funds – Blackstone Real Estate Debt Strategies (BREDS) funds and Blackstone Property Partners (BPP) funds. As of Dec 31, 2019, segmental AUM was \$163.2 billion.
- **The Hedge Fund Solutions** segment consists of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies. The segment's AUM was \$80.7 billion as of Dec 31, 2019.
- **The Credit** segment includes senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. All these are managed by Blackstone's subsidiary. As of Dec 31, 2019, segmental AUM was \$144.3 billion.



In 2017, Blackstone acquired Aon's Technology-enabled HR Business and Harvest Fund Advisors LLC. In 2018, Blackstone, along with Canada Pension Plan Investment Board and GIC, acquired a majority stake in Thomson Reuters' Financial & Risk business, and Clarus.



Reasons To Buy:

- ▲ Blackstone has a strong presence across the globe, along with broad diversification and organic growth prospects. Revenues (GAAP basis) have witnessed a five-year (2015-2019) CAGR of 12.1%, mainly driven by improving management and advisory fees, and total investment income. Revenue growth is expected to continue in the upcoming quarters on the back of promising performance of its funds.
- ▲ Blackstone's fee-earning AUM and total AUM consistently demonstrate strong growth, aided by increasing net inflows. Over the last four years (2016-2019), fee-earning AUM witnessed a CAGR of 13.8% and summed \$408.1 billion, and total AUM recorded a CAGR of 15.9%, reaching \$472.2 billion. The company's diversified products, revenue mix and superior position in the alternative investments space will aid continued AUM growth.
- ▲ Despite a challenging fund-raising environment for asset managers, Blackstone has been successfully raising money. Fund raising for the global private equity and real estate funds resulted in the company's 'dry powder' or the available capital of \$151.1 billion as of Dec 31, 2019.
- ▲ Shares of Blackstone have outperformed the industry over the past six months. Also, the company's 2020 earnings estimates have moved nearly 1% upward over the past 30 days. Given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Blackstone is likely to continue benefiting from its diversified products, acquisitions and revenue mix. The company's robust fund-raising ability is expected to further support profitability.

Reasons To Sell:

- ▼ Elevated expense levels remain a concern for Blackstone. Total expenses have seen a five-year (2015-2019) CAGR of 6.4%. The rise was mainly due to higher general, administrative and other expenses as well as total compensation and benefits costs. Further, expenses are expected to continue rising as the company's well performing funds require more headcount. Its consistent investment in franchise is also raising costs.
- ▼ Unlike other companies in the same space, Blackstone's capital deployment activities are a direct function of the earnings generated. Given a volatile trend in its quarterly earnings over the last several quarters, the dividend might not be dependable. Additionally, it has share repurchase plan in place. As of Dec 31, 2019, \$781 million worth of shares were left to be repurchased. The chances of Blackstone sustaining its current capital deployment activities are dim, given the significantly high level of debts compared with its peers.
- ▼ Blackstone's operations largely depend on commitment from investors of its alternative investment funds. During the crisis, the company's financial performance deteriorated due to the low level of new commitments as investors were shying away from market-linked investments. Though the situation has changed, any future crisis would adversely affect revenue growth and the company's ability to generate cash flow.
- ▼ Also, Blackstone seems overvalued compared with the broader industry. Its current price-to-earnings (P/E) (F1) and price-to-book (P/B) ratios are above the respective industry averages.

Persistently mounting expenses due to investments in franchise are likely to hurt Blackstone's bottom-line growth. Further, sustainability of the company's capital deployment actions is less.

Last Earnings Report

Blackstone Q4 Earnings Beat Estimates, Revenues Up Y/Y

Blackstone's fourth-quarter 2019 distributable earnings of 72 cents per share surpassed the Zacks Consensus Estimate of 68 cents. Moreover, the figure reflects an increase of 26.3% from the prior-year quarter.

Results benefited from growth in revenues and assets under management (AUM). However, higher expenses hurt results to some extent.

Net income attributable to Blackstone was \$483.1 million against net loss of \$10.9 million recorded in the year-ago quarter.

For 2019, distributable earnings of \$2.31 per share surpassed the Zacks Consensus Estimate of \$2.26. Moreover, the figure reflects rise of 6.5% from the prior year. Net income attributable to Blackstone was \$2.05 billion, up from \$1.54 billion a year ago.

Revenues & AUM Improve, Expenses Rise

Total segment revenues for the reported quarter were \$1.79 billion, up 30.5% year over year. The top line surpassed the Zacks Consensus Estimate of \$1.60 billion. Total revenues (GAAP basis) increased significantly year over year to \$2.09 billion.

Total segment revenues for 2019 were \$5.58 billion, up 7.2% year over year. The top line surpassed the Zacks Consensus Estimate of \$5.37 billion.

Total quarterly expenses (GAAP basis) increased significantly year over year to \$1.11 billion due to a rise in all expense components.

Fee-earning AUM grew 19.1% year over year to \$408.07 billion. Total AUM amounted to \$571.12 billion as of Dec 31, 2019, up 20.9% year over year. The rise in total AUM was largely driven by \$26 billion of inflows.

As of Dec 31, 2019, Blackstone had \$5.3 billion in total cash, cash equivalents and corporate treasury investments, and \$11.5 billion in cash and net investments.

Share Repurchase Update

The company repurchased 1.5 million shares in the reported quarter.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	12.29%
EPS Surprise	5.88%
Quarterly EPS	0.72
Annual EPS (TTM)	2.31

Recent News

Dividend Update

On Jan 30, Blackstone announced a quarterly dividend of 61 cents per share. It was paid out on Feb 18 to stockholders on record as of Feb 10.

Valuation

Blackstone's shares are up 73.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 0.7% and 4.8%, over the past year, respectively.

The S&P 500 index is up 14.5% in the past year.

The stock is currently trading at 18.87X forward 12 months earnings, which compares to 12.13X for the Zacks sub-industry, 14.45X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.52X and as low as 7.89X, with a 5-year median of 10.96X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 20.00X forward earnings.

The table below shows summary valuation data for BX

Valuation Multiples - BX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.87	12.13	14.45	18.44
	5-Year High	24.52	14.39	16.21	19.34
	5-Year Low	7.89	9.85	12.01	15.18
	5-Year Median	10.96	12.43	14.15	17.47
P/B TTM	Current	2.66	2.09	2.75	4.66
	5-Year High	2.92	2.23	2.89	4.9
	5-Year Low	1.07	0.97	1.83	2.85
	5-Year Median	1.59	1.75	2.52	3.62
P/S F12M	Current	5.2	3.57	6.55	3.39
	5-Year High	6.82	3.66	6.65	3.43
	5-Year Low	1.94	2.32	5.39	2.54
	5-Year Median	2.89	3.01	6.04	3

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 7% (19 out of 255)



Top Peers

Invesco Ltd. (IVZ)	Outperform
KKR & Co. Inc. (KKR)	Outperform
T. Rowe Price Group, Inc. (TROW)	Outperform
Apollo Global Management, LLC (APO)	Neutral
BlackRock, Inc. (BLK)	Neutral
The Carlyle Group L.P. (CG)	Neutral
Eaton Vance Corporation (EV)	Neutral
SEI Investments Company (SEIC)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	BX Neutral	X Industry	S&P 500	IVZ Outperform	KKR Outperform	TROW Outperform
VGM Score	B	-	-	B	F	F
Market Cap	38.61 B	879.25 M	23.50 B	7.62 B	17.65 B	31.10 B
# of Analysts	7	3	13	7	5	7
Dividend Yield	4.17%	2.34%	1.83%	7.39%	1.58%	2.31%
Value Score	D	-	-	A	D	F
Cash/Price	0.07	0.16	0.04	0.19	0.18	0.06
EV/EBITDA	12.78	9.38	13.56	12.84	6.75	9.45
PEG Ratio	0.98	1.12	2.02	0.77	2.25	1.52
Price/Book (P/B)	2.66	1.60	3.20	0.77	0.58	4.33
Price/Cash Flow (P/CF)	24.23	11.00	13.05	5.68	18.05	14.21
P/E (F1)	19.20	10.47	18.56	6.09	14.67	14.81
Price/Sales (P/S)	5.26	2.64	2.60	1.25	4.18	5.54
Earnings Yield	5.21%	9.43%	5.38%	16.45%	6.83%	6.76%
Debt/Equity	0.82	0.25	0.70	0.78	0.90	0.02
Cash Flow (\$/share)	2.42	1.66	7.03	2.96	1.75	9.27
Growth Score	A	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	-0.50%	6.34%	10.85%	0.64%	10.91%	14.55%
Proj. EPS Growth (F1/F0)	31.97%	12.16%	6.90%	8.07%	29.10%	10.25%
Curr. Cash Flow Growth	-53.23%	-3.54%	6.78%	-6.37%	-40.84%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	-15.01%	3.75%	8.38%	1.83%	-8.13%	10.60%
Current Ratio	1.05	2.14	1.22	1.57	1.17	6.78
Debt/Capital	45.40%	22.94%	42.37%	36.94%	46.97%	15.14%
Net Margin	27.93%	11.59%	11.57%	10.20%	47.50%	37.69%
Return on Equity	14.07%	13.96%	16.80%	12.17%	4.24%	29.45%
Sales/Assets	0.24	0.37	0.55	0.17	0.07	0.62
Proj. Sales Growth (F1/F0)	30.21%	5.28%	4.03%	13.09%	20.06%	10.17%
Momentum Score	A	-	-	C	B	F
Daily Price Chg	-4.39%	-1.68%	-2.98%	-4.00%	-4.47%	-3.32%
1 Week Price Chg	-2.70%	-0.15%	-0.94%	-1.69%	-1.28%	-0.82%
4 Week Price Chg	-4.30%	0.75%	-0.94%	-5.20%	4.36%	2.50%
12 Week Price Chg	10.70%	2.07%	1.75%	-2.95%	9.11%	7.76%
52 Week Price Chg	72.74%	0.95%	10.97%	-11.59%	38.79%	34.29%
20 Day Average Volume	4,055,594	81,429	2,001,782	4,331,064	3,086,333	1,089,596
(F1) EPS Est 1 week change	0.05%	0.00%	0.00%	0.00%	0.00%	-0.06%
(F1) EPS Est 4 week change	0.52%	0.00%	-0.05%	-0.26%	0.47%	3.01%
(F1) EPS Est 12 week change	-0.09%	2.02%	-0.21%	3.77%	4.66%	10.80%
(Q1) EPS Est Mthly Chg	-8.52%	0.00%	-0.49%	1.67%	-6.84%	0.75%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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