
From: Richard Kahn <[REDACTED]
Sent: Monday, February 6, 2017 3:01 PM
To: jeffrey E.
Subject: Fwd: APO US: Apollo Global Management: Rating Change - Upgrading to Buy on positive results and a more favorable FRE, return, & dist outlook - BUY - United States

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Begin forwarded message:

From: =/b>"Ens, Amanda" <[REDACTED]

Subject: =/b>APO US: Apollo =llobal Management: Rating Change - Upgrading to Buy on positive results =nd a more favorable FRE, return, & dist outlook - BUY - United =tates

Date: =/b>February 6, 2017 at 9:21:23 AM =ST

To: =/b>"Rich Kahn" <[REDACTED]

Reply-To: =/b>"Ens, Amanda" <[REDACTED]

Global Research

Upgrading to Buy on positive results and = more favorable FRE, return, & dist outlook

Rating Change: BUY

PO: 27.00 USD | Price: 22.13 USD

Equity | 06 February =017

Key takeaways

- =/span>We are upgrading APO to Buy from =neutral on improving FRE, returns, & dist. We raise our PO to \$27 =rom \$23 (20%+ upside).
- =/span>We take our ENI ests up roughly =0% (7% above consensus) & '18 distribution +4% (11% above =onsensus). 7% yield on '17E.
- =/span>The upgrade comes after APO =eported a better than expected 4Q (\$0.98 vs. cons/us \$0.80/\$0.96), with = positive outlook.

FULL REPORT

Upgrading APO to Buy from Neutral - PO to \$27

We are upgrading APO to Buy from Neutral and raising our PO to \$27 from \$23 (23% upside potential plus 7% yield). The rating change is driven by our expectation of improving fee related earnings (FRE), fund returns, and a rising distribution. We expect FRE to improve as Fund IX is raised and turns on ~\$0.25 benefit initially, ~20% to FRE and ~10% to ENI, economic net income); returns to improve with economic growth; and distributions to rise with FRE, a more seasoned Fund VIII, and possible Athene liquidity events. We are raising our 2017 and 2018 ENI estimates around 10% due to our outlook (~7% above consensus) and our 2018 distribution +4% (7% yield on '17) and 11% above consensus.

Turning point for fundamentals

Apollo has done a good job growing its more stable FRE, notably due to significant growth in its Credit segment, and this should benefit further with Fund IX in '17 (we expect it in 2H17 and given strong returns we expect at least a similar raise of ~\$18B). While fund returns picked up meaningfully in '16 vs. 1H16, we expect returns to remain favorable and likely improve further with accelerating economic growth and pro-growth policies. Importantly, although APO is currently around trough levels for its distribution (dividend), which had kept us less positive on the stock in the past, we see this shifting with rising FRE, potential Athene cash events, and more capital in the ground (deployed \$16B in '16) that is likely to generate performance fees and be realized over time given further seasoning, strong performance, and a healthy capital markets backdrop.

APO reported 4Q NI/share of \$0.98, beating expectations

APO reported ENI/share of \$0.98, beating the Street/our estimates of \$0.80/\$0.96, due to better-than-expected revenue, driven by performance fees and transaction fees. We would note that the strong quarter was driven in part by an anticipated positive mark on Athene, which IPO'd in 4Q. However, the core business also performed well, with strong performance (+2.1% to +5.9%), healthy fundraising, active deployment and exits, and rising accrued performance fees. The distribution was relatively strong, at \$0.45.

Attractive risk/reward - 27 PO and 7% yield

We raise our PO to \$27, given stronger RE & returns having a positive impact on our sum-of-the-parts valuation. We like the risk/reward in APO, and while macro and policy changes (tax reform) are still uncertain, we see the positives outweighing the risks.

Michael Carrier, CFA
Research Analyst
MLPF&S
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This report is intended for amanda.ens@baml.com =o:p class="">

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Publication: 60353226-11708055.pdf

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