



North America
United States
Financial
Brokers, Asset
Managers & Exchanges

Industry
**Alternative Asset
Manager Initiation**

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Initiation of Coverage

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**Strong Cyclical and Secular Trends
Should Drive More Outperformance**

Initiating Coverage of the Alternative Asset Managers; BX is top pick

We initiate coverage of 5 alternative asset managers (the "Alts") with Buys on Blackstone (BX), Carlyle Group (CG), & Oaktree Capital (OAK) & Hold ratings on Apollo Global Mgmt (APO) & KKR & Co (KKR). Overall, these Alts are well-positioned amid favorable cyclical tailwinds & strong secular dynamics, while valuations remain attractive. We favor the more-diversified Alts possessing less earnings variability & good distributable earnings (DE) growth profiles for 2014-2015; this dynamic favors BX & CG over APO & KKR for now, in our view, & we see 4Q earnings as a positive catalyst upon a better DE outlook for next 1-2 years. We also like OAK's more-traditional asset manager business profile.

Valuations still attractive as debate on valuing the Alts continues

With volatile and less predictable earnings, the market has been reluctant to assign a comparable traditional asset manager P/E on the Alts' carried interest income stream, which accounted for over half of Alt's pretax income over the past 2 years. However, we see limitations in this legacy sum-of-parts valuation approach (valuing fee-earnings at much higher multiples than carried interest) primarily because of the longer-term reliability of carried interest converting into cash distributions for public unit holders. Thus, we prefer to value the Alts on longer-term 'distributable earnings' (DE), which is a proxy for cash flow and the basis for cash distributions to unit holders. On this approach, we think these 5 Alt managers can trade at a median 12-13x P/E on our 2015 DE forecasts, a year from now, which implies about 2 points of multiple expansion and over 15% price appreciation, and about 22% total return inclusive of median 6-7% distribution yields at current price levels.

Both cyclical and secular themes are very positive

In the current economic/capital markets cycle, the Alts are likely to increasingly benefit from realizing the value of their long-term investments (from sales via M&A, IPOs, etc.) and distributing more cash to unit holders over 2014-15. Thus, we see a greater convergence of DE and the more volatile mark-to-market-driven economic net income (ENI), as the realization cycle gains momentum in 2014. Asset organic growth rates should remain healthy as strong investment performance track records enable fundraising to outpace outflows from realized distribution to LPs. Key secular trends favoring Alts are 1) rising allocations globally to alternative assets by institutions, and increasingly, individuals, 2) a major competitive advantage in ability to generate patient capital and invest long-term and influence investment outcomes, 3) a greater role for Alts in financing, creating more capital deployment opportunities globally, & 4) increasing concentration of asset flows to the largest Alts, which favors these 5 stocks.

These stocks have above-average risk profiles

With greater leverage to economy & capital markets, the stocks should maintain higher betas vs. traditional asset managers. Key risks are: 1) a downturn in the US & global economy and market prices, 2) a major slowdown in capital deployment that could cause 2015 earnings to peak out, 3) an inability to narrow P/E gap vs. traditional managers given inherent earnings volatility and complicated financial structures & modeling, and 4) speculation of greater regulatory scrutiny and/or higher taxation on carried interest and/or the Alts' income within their partnership structures.

Key Changes

Company	Target Price	Rating
OAK.N	NA to 68.00(USD)	NR to Buy
KKR.N	NA to 25.00(USD)	NR to Hold
BX.N	NA to 39.00(USD)	NR to Buy
CG.OQ	NA to 43.00(USD)	NR to Buy
APO.N	NA to 31.00(USD)	NR to Hold

Source: Deutsche Bank

Top picks

The Blackstone Group (BX.N), USD30.52 Buy

Source: Deutsche Bank

Companies Featured

Apollo Global Management (APO.N), USD31.74	2012A	2013E	2014E	Rating
EPS (USD)	3.82	4.55	2.50	Hold
P/E (x)	3.7	7.0	12.7	
EV/EBITDA (x)	-	-	-	
The Blackstone Group (BX.N), USD30.52	2012A	2013E	2014E	Rating
EPS (USD)	1.77	2.56	3.09	Buy
P/E (x)	8.1	11.9	9.9	
EV/EBITDA (x)	-	-	-	
The Carlyle Group (CG.OQ), USD35.72	2012A	2013E	2014E	Rating
EPS (USD)	2.04	2.84	2.70	Buy
P/E (x)	11.8	12.6	13.2	
EV/EBITDA (x)	-	-	-	
KKR & Co. (KKR.N), USD24.00	2012A	2013E	2014E	Rating
EPS (USD)	2.90	2.87	2.33	Hold
P/E (x)	4.8	8.4	10.3	
EV/EBITDA (x)	-	-	-	
Oaktree Capital Group (OAK.N), USD57.36	2012A	2013E	2014E	Rating
EPS (USD)	4.06	6.06	4.36	Buy
P/E (x)	9.7	9.5	13.2	
EV/EBITDA (x)	-	-	-	

Source: Deutsche Bank

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