



Rating  
**Buy**

North America  
 United States

Financial  
 Brokers, Asset  
 Managers & Exchanges

Company  
**The Carlyle Group**

Reuters: CG.OQ  
 Bloomberg: CG US

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Price at 24 Jan 2014 (USD)	36.04
Price Target	43.00
52-week range	37.91 – 24.19

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.0	21.2	26.2
S&P 500 INDEX	0.0	4.7	22.3

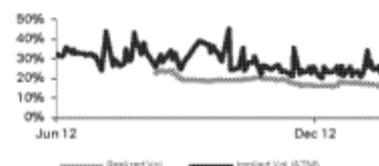
Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USD)	11,081.6–
Shares outstanding (m)	314.9–
Free float (%)	–
Volume (23 Jan 2014)	96,496–
Option volume (und. shrs., 1M avg.)	4,789–

Source: Deutsche Bank

Implied & Realized Volatility (3M)



Source: Deutsche Bank

## An emerging consistent growth story with lower risk profile; initiate at Buy

Initiating coverage with a Buy rating and \$43 PT

We see the following positive catalysts for CG units over the next 12 months: 1) an inflection from among the weakest distributable earnings (DE) growth stories in 2013 to the second strongest (behind BX) in 2014-15 upon greater DE contribution from a broader array of funds, 2) greater investor appreciation over the next several quarters for CG's lower risk profile emanating from its conservative investing philosophy and greater diversification by product type, asset class and business line, and 3) a strong pace of fundraising over at least the next several quarters, bolstering CG's ability to maintain positive DE growth post the current industry realization cycle over at least the next 1-2 years. We see these dynamics helping CG narrow its P/E gap to traditional asset managers during 2014, though less so than peers given its current premium valuation to the group; hence the story is more DE growth-oriented.

### Earnings outlook

We believe DE, from which cash distributions are paid to unit holders, is the most important earnings metric to value the Alts, rather than economic net income (ENI) that forms Consensus estimates. We forecast CG to grow DE per unit from \$2.11 in 2013 to \$2.84 in 2014E and \$3.38 in 2015E. Key drivers are: 1) a relatively stable pace of realizations 2014-16, 2) CEP III moving into carry position in 4Q13-1Q14, & 3) strong fundraising across business lines.

### Valuation & Risks

We think the catalysts outlined above will drive CG' P/E from 11.4x 2014E ENI to 13-14x 2015 DE 12 months from now, narrowing its discount to the S&P 500 P/E from ~25% to ~15%. This drives a \$43 PT, which implies a total return of 25% over the next 12 months, inclusive of a 6.2% forecast distribution yield for 2014. Downside risks for CG are: 1) a slowdown in US/global economy, 2) a prolonged equity market correction, & 3) an inability to generate strong organic growth in 2014 that would jeopardize long-term growth in DE after a likely strong realization cycle over 2014-15 and 4) an inability to deploy capital effectively in its PE funds given the strong pace of fund raising.