Rating
Hold

North America
United States

Financial
Brokers, Asset Managers & Exchanges

Company
Apollo Global Management

Reuters	Bloomberg
APO.N	APO US

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Price at 24 Jan 2014 (USD)	32.20
Price Target	31.00
52-week range	36.22-20.94–

Price/price relative

Performance (%)	1m	3m	12m
Absolute	5.1	-6.3	53.3
S&P 500 INDEX	-2.3	2.2	19.8

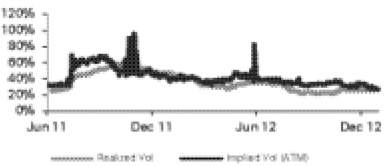
Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USD)	$12,707
Shares outstanding (m)	393.8–
Free float (%)	–
Volume (24 Jan 2014)	229,268–
Option volume (und. shrs., 1M avg.)	24,047–

Source: Deutsche Bank

Implied & Realized Volatility (3M)



Source: Deutsche Bank

Strong performer but solid earnings peaking out soon; initiate at Hold

Initiating coverage of APO with a Hold Rating and $31 PT

We see APO units trading in a range near current levels over the next 12 months for the following reasons: 1) we see APO as more advanced in its fund realization cycle than peers, a condition likely to continue into 2014, causing distributable earnings (DE) to peak in 2013 or 2014 at the latest, 2) despite a very successful capital raise for Fund VIII at $18bn, DE in 2015-16 is likely to remain well below 2013-14 levels as Fund VIII remains in a capital deployment mode through 2016, and distributions from other large funds will likely have waned, and 3) APO's risk profile is above average with more concentrated positions, and this could restrain APO's PE expansion in 2014 if the market becomes choppier vs. 2013. Positively, mgmt is extremely innovative and several growth initiatives may help buffer the valley in the PE cycle, the strongest being the Athene/Aviva acquisition, which will enable APO to further leverage its credit expertise & grow fee earnings. However, we don't think these efforts will fully offset the DE compression post realization cycle.

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 APO's DE per unit to drop from $3.82 in 2013 to $3.22 in 2014E and $2.70 in 2015E. Key drivers are: 1) exhausting harvested gains over the next several quarters, 2) Fund VIII being in investment mode, partially offset by 3) contribution from Aviva.

Valuation & Risk

With positive revaluation for the Alts, we still think APO will expand its P/E from 10.6x 2014E ENI to over 11-12x 2015E DE 12 months from now, narrowing its discount to the S&P 500 P/E from ~40% to ~30%. This drives a $31 PT, which implies a total return of 6% over the next 12 months, inclusive of a 9.5% forecast distribution yield for 2014. Downside risks for APO are: 1) a slowdown in US/global economy, 2) a prolonged equity market correction, 3) an inability to generate strong growth organically and/or from Aviva in 2014 that would further reduce DE in '15, 4) an inability to deploy capital in Fund VIII at a reasonable pace & 5) failure to improve P/E vs. traditional asset managers and the market broadly. Upside risks are: 1) stronger investment returns than expected that drive much higher DE than forecast, and 2) much stronger organic growth at Aviva than forecast.