Rating
Buy

North America
United States

Financial
Brokers, Asset Managers & Exchanges

Company
Oaktree Capital Group

Reuters	Bloomberg
OAK.N	OAK US

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[redacted]

Price at 24 Jan 2014 (USD)	58.88
Price Target	68.00
52-week range	60.95 - 46.75

Price/price relative

Performance (%)	1m	3m	12m
Absolute	5.7	5.9	28.3
S&P 500 INDEX	0.0	4.7	22.3

Source: Deutsche Bank

Stock & option liquidity data	
Market Cap (USD)	1,888.71
Shares outstanding (m)	150.86
Free float (%)	
Volume (23 Jan 2014)	47,449
Option volume (und. shrs., 1M avg.)	–

Source: Deutsche Bank

Conservative credit manager still under-appreciated; initiate at Buy

Initiating coverage of OAK with a Buy Rating and $68 PT

We see the following positive catalysts for OAK units over the next 12 months: 1) an acceleration in AuM growth after stagnant AuM over much of the past 3 years as the giant financial-crisis era VIIb fund nears the end of its distribution period, 2) strong organic growth across a variety products, from new and also more-traditional strategies, 3) reasonable growth in DE after modest re-basing drop in 2014 post VIIb realization cycle, helped by high accrued incentive balance, and 4) greater investor appreciation for OAK's lower risk profile emanating from its conservative investment strategy (with a heavy mix of yield stabilizing investment returns). With OAK trading at a premium valuation to peers (consistent with its more-asset-manger-like business mix), our thesis is more reliant on earnings growth than revaluation, but we also see good risk/return w/OAK outperforming in a correction scenario.

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 OAK's DE per unit to drop from $5.70 in 2013 to $5.14 in 2014E and grow again to $5.40 in 2015E. Key drivers are: 1) a re-basing of incentive fees (though still at a good pace) after Fund VIIb distributions wane, partially offset by 2) continued strong AuM organic growth bolstering longer-term DE capacity.

Valuation & Risks

We think the catalysts outlined above will slightly improve OAK' P/E from 12.3x 2014E ENI to 12-13x 2015 DE 12 months from now, narrowing its discount to the S&P 500 P/E from ~20% to ~15%. This drives a $68 PT, which implies a total return of 22% over the next 12 months, inclusive of a 6.4% forecast distribution yield for 2014. Downside risks for OAK are: 1) a slowdown in US/global economy, 2) any emergence of a severe credit cycle that could temporarily depress OAK AuM, & 3) an inability to generate strong organic growth in 2014 that would jeopardize long-term growth in DE.

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