

Patria

4Q23 Earnings: Acquisitions driving FEAUM & FRE growth in 2024

Reiterate Rating: NEUTRAL | PO: 17.00 USD | Price: 15.58 USD

Strong 4Q23 results; Large FEAUM inflows in 2024

Patria (PAX) reported robust 4Q23 financial results with higher-than-expected FRE (\$47M vs. \$37M BofAe) and PRE (\$27M vs. \$16M BofAe). PAX continues fundraising for Infra V & Private Equity VII and we expect final closes for both by the end of 2024. We also look for the Abrdn and CS Brazil Real Estate acquisitions to add over \$10B to FEAUM. Additionally, deals such as Bancolombia which closed in 2023, should begin to be integrated with the Patria platform. On the call, management reiterated its full year 2024/2025 FRE (fee-related earnings) guidance of \$170M/\$200M.

Lowering PO to \$17; implies 18% total return potential

We modestly decreased our 2024/2025/2026 EPS to \$1.57/\$1.71/\$1.78 from \$1.59/\$1.74/\$1.83 due to lower PRE expectations. We lower our PO to \$17 from \$18 (still apply 10x our 2026 cash earnings (distributable earnings minus stock-based compensation)). Our PO implies 18% total return potential.

Geopolitical factors keep our rating at Neutral

We are positive on PAX's long-term growth trajectory which is supported by a mix of organic growth and M&A. Specifically, the firm has used M&A to expand its investment capabilities into new geographies and asset class segments. However, PAX trades at a discount to other global alternative asset manager firms, and we think the discount may persist partly due to rising net outflows in its credit business. Downside risks include (1) macroeconomic conditions & geopolitical factors and (2) key-person risk (limited partnership agreements, voting interest, succession) & corporate governance. Upside risk is M&A and fundraising.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.00	1.27	1.57	1.71	1.78
EPS Change (YoY)	-3.8%	27.0%	23.6%	8.9%	4.1%
DPS	0.85	1.08	1.34	1.45	1.52
Valuation (Dec)					
P/E	15.6x	12.3x	9.9x	9.1x	8.8x
Dividend Yield	5.5%	6.9%	8.6%	9.3%	9.7%

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Timestamp: 20 February 2024 08:12AM EST

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	18.00	17.00
2024E Rev (m)	441.9	424.7
2025E Rev (m)	483.1	484.5
2026E Rev (m)	513.5	510.7
2024E EPS	1.59	1.57
2025E EPS	1.74	1.71
2026E EPS	1.83	1.78
2024E DPS	1.35	1.34

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Stock Data

Price	15.58 USD
Price Objective	17.00 USD
Date Established	20-Feb-2024
Investment Opinion	B-2-7
52-Week Range	12.81 USD -17.40 USD
Mrkt Val / Shares Out (mn)	2,119 USD / 136.0
Free Float	99.2%
Average Daily Value	3.18 USD
BofA Ticker / Exchange	PAX / NAS
Bloomberg / Reuters	PAX US / PAX.OQ
ROE (2024E)	0%
ESGMeter™	Low

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iQprofileSM Patria

Economic Income (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Management fees	227	250	308	358	377
Other fees	1	(2)	(3)	(4)	(4)
Total fee-related revenue	227	247	304	354	373
Performance fees	29	73	120	131	138
Total revenue	256	320	425	485	511
Base compensation expense	(65)	(60)	(79)	(101)	(110)
Non-compensation expense	(32)	(40)	(44)	(49)	(46)
Total fee-related expenses	(97)	(100)	(123)	(151)	(156)
Performance fee compensation	(10)	(25)	(42)	(45)	(48)
Total expenses	(107)	(125)	(165)	(196)	(204)
Total fee-related earnings	130	148	181	203	217
Distributable earnings	154	197	258	287	305
Taxes	(7)	(10)	(21)	(26)	(30)
After tax distributable earnings	147	188	237	260	274
Distributable earnings per share	1.00	1.27	1.57	1.71	1.78
Distribution per share	0.85	1.08	1.34	1.45	1.52

Assets Under Management

Assets under Management - EOP	27,250	31,844	45,513	48,119	50,646
Fee Paying AUM	(19,168)	(23,903)	(35,889)	(37,797)	(39,637)

Company Sector

Asset Management

Company Description

PAX is the largest private markets asset manager across LatAm with Brazil and Chile being its two largest markets. The firm invests across private equity, credit, infrastructure and real estate. While the firm is focused on private investing in LatAm, it raises most of its capital from large limited partners in North America, Asia and Europe.

Investment Rationale

We are positive on PAX's growth trajectory which is supported by a mix of organic growth and M&A. Specifically, the firm has used M&A to expand its investment capabilities into new geographies and asset class segments. However, PAX trades at a discount to other global alternative asset manager firms, and the discount may persist given geopolitical factors which supports our Neutral rating.

Quarterly Earnings Estimates

	2023	2024
Q1	0.27A	0.38E
Q2	0.30A	0.35E
Q3	0.23A	0.40E
Q4	0.48A	0.43E

Additional details

Steady inflows expected throughout 2024 for Infra V and PE VII

PAX is currently raising its Infrastructure V & Private Equity VII funds. Infrastructure V raised ~\$1B in 2023 and has a \$2.5B target. Private Equity VII has raised \$1.2B (\$2.5B target) and management expects steady fundraising throughout 2024, with a final close for both late in the year. While the target for Private Equity VII has been lowered from its original \$3B target, management has guided to similar-sized deployments as originally announced. This likely means that the investing period will be quicker for Private Equity 7, and that they may begin fundraising again for fund 8 sooner than their typical 3 to 4 years between vintages.

Abrdn and Credit Suisse Real Estate acquisitions should close soon

2023 was another big year of acquisitions for PAX. The company had acquisition-related inflows of \$1.3B in 4Q23, primarily due to the Bancolombia deal closing. In 2024, the company will begin to integrate the more recent acquisitions with its platform and will benefit from the additive management fees being captured for a full calendar year. Looking ahead, we expect PAX to close the abrdn Private Equity Solutions Business in 1H24, which will bring \$9B of AUM, \$7.8B of FEAUM and ~\$15M in FRE. Additionally, in 2H24, we expect PAX to close on the Credit Suisse Brazil Real Estate deal bringing in an additional \$2.4B of FEAUM and \$8M in FRE.

Price objective basis & risk

Patria (PAX)

Our price objective of \$17 is 10x our 2026E cash earnings estimate. Cash earnings is defined as distributable earnings after tax less equity-based comp. The 10x multiple is around the mid-point of where the alternative asset manager universe currently trades and is in-line with where the PAX stock has traded lately.

Downside risks to our PO: macroeconomic conditions and geopolitical factors, key person risk and corporate governance.

Upside risks to our PO: organic growth, M&A and a stronger realization backdrop.

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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
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	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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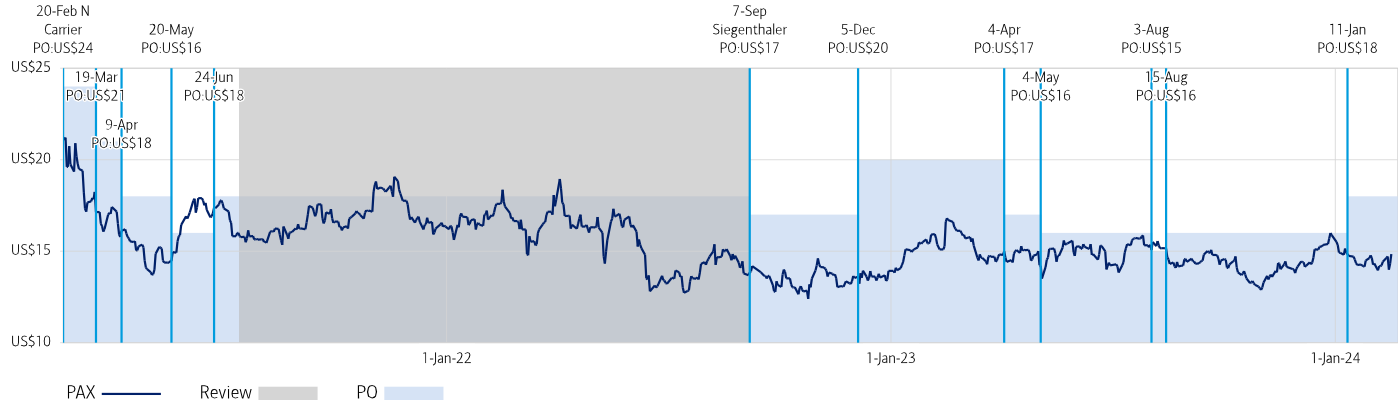
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Patria (PAX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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