

BlackRock

4Q23E: GIP acquisition enhances base fee organic growth rate; reiterate Buy

Reiterate Rating: BUY | PO: 1,025.00 USD | Price: 792.61 USD

Great Bond Rebalancings in 2024 + Infra acquisition

While BLK's 4Q23 net flows missed our estimate due to lumpy, low fee institutional index redemptions, we continue to estimate an organic growth re-acceleration in 2024 largely driven by significant reallocations into fixed income after the Fed "pause" and with the first rate cut. In our view, BLK is best positioned to win the lion's share of the expected rebalancings, and this drives our estimate for its organic growth to accelerate to 5% in 2024/25 (versus 3% in 2023). We think that +5% organic growth in 2024 plus beta, operating leverage, and capital management supports double-digit EPS growth despite some incremental blended fee rate headwinds. BLK's acquisition of GIP (Global Infrastructure Partners, the largest independent infra manager) triples its infra assets under management (AuM) to \$150B and ranks BLK as the 2nd-largest infra manager globally. More importantly, the transaction enhances its base fee organic growth rate.

Modestly reduce our EPS and PO; forecast 30% return

We revise our 1Q24/2024/2025/2026 EPS estimates to \$9.14/\$40.23/\$45.60/\$51.25 from \$9.59/\$41.58/\$45.68/\$51.70 driven primarily by a reduction to our 1Q24 beta assumption, lower fee rate, and tempered buyback estimate, while the GIP deal and higher operating margin partially offset this. Our price objective (PO) declines to \$1,025 from \$1,034 and is based on a 20.0x multiple on 2026 EPS, implying 30% total return potential.

Reiterate Buy; leading investment/tech solutions platform

We expect BLK stock to outperform over the next 12 months as the firm takes profitable market share through its secular growth businesses where it has a leading franchise and/or early mover advantages (ETFs, fixed income, multi-asset, ESG, alternatives, technology). BLK also has significant scale advantages, especially with global distribution, as institutions and retail intermediaries are consolidating their asset manager relationships. We forecast 3-6% organic growth for BLK across the cycle, which should translate into low-double-digit EPS growth due to beta, operating leverage, and capital management. However, we expect stronger/peak organic growth in 2024-25 driven by significant investor reallocations (fixed income and privates).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	40.50	35.36	37.79	40.23	45.60
GAAP EPS	38.18	34.70	37.04	38.76	44.98
EPS Change (YoY)	19.6%	-12.7%	6.9%	6.5%	13.3%
Consensus EPS (Bloomberg)			37.16	39.37	44.59
DPS	16.52	19.52	20.00	20.40	21.42
Valuation (Dec)					
P/E	19.6x	22.4x	21.0x	19.7x	17.4x
GAAP P/E	20.8x	22.8x	21.4x	20.4x	17.6x
Dividend Yield	2.1%	2.5%	2.5%	2.6%	2.7%

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Timestamp: 12 January 2024 02:57PM EST

12 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	1,034.00	1,025.00
2023E Rev (m)	17,881.2	17,859.0
2024E Rev (m)	19,921.0	19,938.1
2025E Rev (m)	21,617.6	22,231.8
2023E EPS	37.06	37.79
2024E EPS	41.58	40.23
2025E EPS	45.68	45.60

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Stock Data

Price	792.61 USD
Price Objective	1,025.00 USD
Date Established	12-Jan-2024
Investment Opinion	B-1-7
52-Week Range	596.18 USD - 819.00 USD
Mrkt Val / Shares Out (mn)	117,911 USD / 148.8
Free Float	92.0%
Average Daily Value	544.36 USD
BofA Ticker / Exchange	BLK / NYS
Bloomberg / Reuters	BLK US / BLKN
ROE (2023E)	14.5%
ESGMeter™	Medium

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iQprofileSM BlackRock

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Revenue	19,374	17,873	17,859	19,938	22,232
% Change	19.6%	-7.7%	-0.1%	11.6%	11.5%
Investment Advisory Fees	15,260	14,451	14,399	16,151	18,120
Compensation & Benefits	(6,043)	(5,681)	(5,779)	(6,277)	(6,964)
% Change	19.9%	-6.0%	1.7%	8.6%	10.9%
Non-Compensation Expenses	(5,881)	(5,716)	(5,744)	(6,067)	(6,396)
Net Income to Ordinary Shareholders	5,901	5,269	5,563	6,035	6,949
Adjusted Net Income (Operating)	6,260	5,369	5,676	6,264	7,045
% Change	19.7%	-14.2%	5.7%	10.4%	12.5%
Adjusted EBITDA (Operating)	8,590	7,485	7,392	8,779	10,139
Cash EPS	38.58	33.36	37.19	39.98	45.29
% Change	7.9%	-13.5%	11.5%	7.5%	13.3%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating Margin	38.5%	36.2%	35.5%	38.1%	39.9%
Pre-Tax Profit Margin	42.2%	35.7%	40.4%	41.5%	42.7%
Net Profit Margin	32.3%	30.0%	31.8%	31.4%	31.7%
Comp Expense/Revenue	31.2%	31.8%	32.4%	31.5%	31.3%
Non-Comp Expense / Revenue	30.4%	32.0%	32.2%	30.4%	28.8%
Net Revenue Growth	19.6%	-7.7%	-0.1%	11.6%	11.5%
Operating Expense Growth	13.5%	-4.4%	1.1%	7.1%	8.2%

Asset Management Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Assets Under Management (\$bn)	10,010,143.0	8,594,481.0	10,006,818.0	11,114,456.3	12,483,685.5
% Change	15.4%	-14.1%	16.4%	11.1%	12.3%
% Equity	53.4%	51.6%	52.9%	53.4%	52.5%
% Fixed Income	28.2%	29.5%	28.0%	28.6%	29.6%
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	552,911.0	315,876.0	288,696.0	477,584.0	505,062.5
Organic Growth	6.4%	3.2%	3.4%	4.8%	4.5%
Organic Growth ex-Money Market	5.7%	4.3%	2.6%	5.4%	5.0%
Advisory Fees / Avg. AUM	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	152,648	115,957	118,472	121,421	125,083
Total Shareholders' Equity	37,806	37,816	40,331	43,280	46,942
Tangible Shareholders' Equity	37,806	37,816	40,331	43,280	46,942
BVPS (Stated Equity)	251.63	254.50	274.03	283.29	309.19
ROE (Stated Equity)	17.1%	14.2%	14.5%	15.0%	15.6%
Cash & Investments	4,975	3,976	6,491	9,440	13,102
Net Cash & Investments Per Share	32.19	26.18	43.21	60.63	84.81

Company Sector

Asset Management

Company Description

BLK is the largest asset manager in the world with over \$10Tn in assets under management. Its acquisitions of Merrill Lynch Investment Management and iShares transformed it from a fixed income focused investment firm into a diversified manager with scaled distribution. It has leading and/or early mover franchises in ETFs, institutional fixed income, multi-asset, technology solutions, ESG, direct indexing with a large alternatives business.

Investment Rationale

We expect the BLK stock to outperform as the firm continues to take profitable market share through its secular growth businesses (ETFs, fixed income, multi-asset, ESG, alternatives), expansion in Asia and its technology solutions platform. We also estimate BLK has significant scale advantages, especially on distribution with institutions and retail distributors that are consolidating their asset manager relationships.

Quarterly Earnings Estimates

	2022	2023
Q1	9.52A	7.93A
Q2	7.36A	9.28A
Q3	9.55A	10.91A
Q4	8.93A	9.66E

Additional details

Expect BLK to win the lion's share of the Great Bond Rebalancings in 2024/25

We continue to expect a large wave of rebalancings into traditional fixed income following the Fed "pause" and with the first rate cut. Specifically, we expect significant money in motion as institutional investors and retirees seek to lock in higher yields and record cash balances move off the sidelines. With the expected bond reallocations, we look for BLK to win the lion's share of flows into fixed income and for its organic growth to re-accelerate in 2024/25. This is driven by our estimate that passive/ETF will win 60-70% of the forecasted fixed income flows, which should primarily benefit BLK given its 1) positioning as the largest global fixed income with \$3.6Tn in AuM, 2) industry-leading bond ETF business (>450 bond ETFs, 9/10 top global asset managers use iShares), and 3) solid long-term investment performance, which should help support its active fixed income flows as well.

GIP acquisition implies no other big deal coming (in our view)

With earnings, BLK announced that it will acquire Global Infrastructure Partners (GIP) in 3Q24. GIP is the largest independent infrastructure manager globally and number 3 overall. Following the closing of the acquisition, BLK will become number 2 after combining its \$50B of AuM with GIP's \$100B behind number-1 Brookfield (BAM) and above number-3 Macquarie, followed by KKR and Blackstone (BX). The deal will be funded with \$3B of cash and 12M shares. Within the \$100B of AuM, \$17B is non-fee paying AuM, and BLK targets >\$400M of after-tax FRE (fee-related earnings) with an operating margin >50%. GIP's partners will retain 100% of the carry through Fund V (currently fundraising), while BLK shareholders will receive 40% of the carry on future funds (we expect to start seeing significant carry around 2030). BLK estimates a 25-29x 2024 FRE multiple, and we expect a future opportunity in the retail channel and with its infra credit business. Additionally, BLK targets modest accretion in year 1 (= 2025), and GIP's partners have a majority of their stock locked up through 3Q26 (2 years).

Forecasting operating margin expansion starting this year after declines

BLK continuously invests in its business as it looks to optimize its profitability and organic growth over the long run. In market drawdowns, this weighs on its operating margin, and in 2022 and 2023, BLK's adjusted operating margin declined to a respective 42.8% and 41.0% sequentially, which compares to 46.8% in 2021. However, BLK's management has put more emphasis on expanding BLK's adjusted operating margin and guided to a flat headcount in 2024 and core G&A expense growth at low to mid-single digits (both excluding GIP). Given this, combined with our 12% revenue growth forecast for 2024, we look for high-single-digit GAAP comp and core G&A expense growth (including GIP). With our positive beta assumption of +6% in 2024 (beta is BLK's highest-margin revenue source), we estimate a modest adjusted operating margin increase in 2024 (100bps). After a full year post closing, GIP should be modestly accretive to operating margin and EPS, and we expect BLK's 2025 adjusted operating margin to expand by another 100bps.

Price objective basis & risk

BlackRock, Inc. (BLK)

Our PO of \$1025 is based on a 20x 2026E EPS multiple. This is slightly lower than the mid-point of where the stock has traded over the last 12-18 months (17 to 24x range on next 12 month EPS). The asset manager stocks are currently trading at a wide range (5-42x) with an average of 15x EPS and our PO assumes BLK maintains its historical premium (especially relative to the traditional asset managers given BLK's higher growth prospects).

Risks to our PO are (1) capacity and regulatory issues created by size, (2) negative markets or market-driven mix shift (divergent beta), (3) fee pressure (pricing cuts).

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	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
UNDERPERFORM				
	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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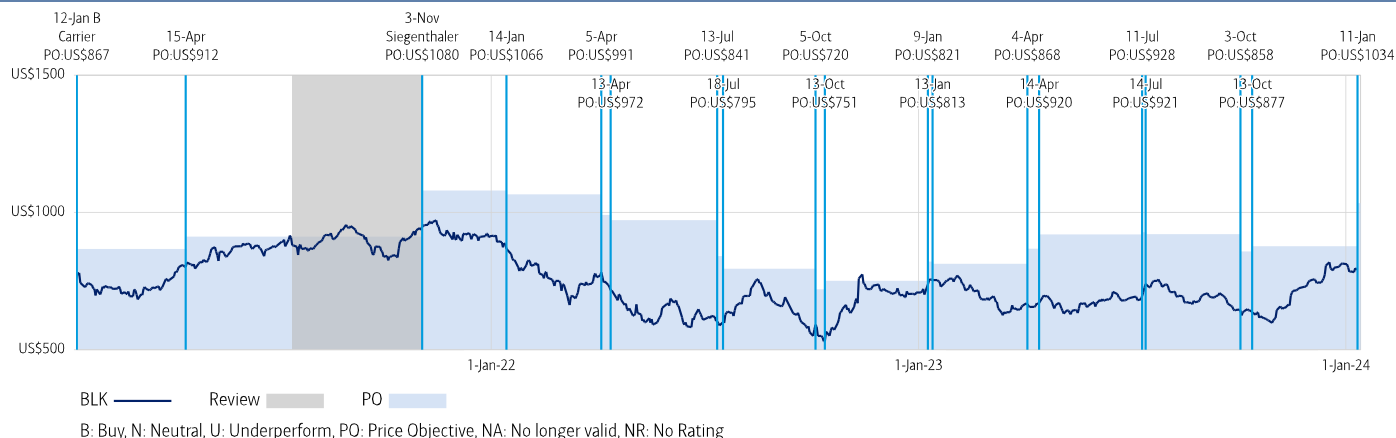
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BlackRock, Inc. (BLK) Price Chart



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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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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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