

Blackstone

Key takeaways from meeting with President/COO; Bullish on BX's 2024

Maintain Rating: BUY | PO: 117.00 USD | Price: 112.54 USD

On Tuesday, we hosted a group dinner with Blackstone's President & COO Jon Gray. Following the event, we maintain our Buy rating and our 2024/25 EPS are 4%/6% above consensus. In conclusion, we are bullish on 2024 for BX given the prospects for both (1) improving private wealth net flows (BREIT: end of limits + acceleration in sales) and (2) lower interest rates - benefiting BX's real estate and private equity businesses. BofA's economists forecast Fed rate cuts in 2H24 and BX has visibility into declining inflation via its portfolio companies (and doesn't expect a significant pick-up in credit losses).

The Alt secular growth story could reaccelerate in 2024

BX and the Alts remain in a period of robust secular growth as institutions, individuals and insurers are expected to raise their allocations to private investments and in parallel consolidate their GP relationships – benefiting the largest/best platforms (like BX). In 2024, we believe lower interest rates and higher equity markets could mitigate the denominator effect with US institutions while adoption rates are still low in Asia.

BX's #1 private wealth effort a big competitive advantage

BREIT's monthly redemption requests continue to decline while BCRED's net flow trajectory has reaccelerated. Both funds continue to outperform peers and their public/liquid comps which provides us confidence that flows will continue to improve. We believe there is sizable pent-up sales demand in BREIT that will flow through after the redemption limits end, as retail platforms are pausing with allocations until redemptions are fully met. We look for BREIT's limits to end in 1H24.

Pivoting to newer verticals with long growth runways

BX's PE and RE businesses have been core to its growth story for 30 years. However, the private markets are evolving and we expect to see its fundraising contribution shift into relatively newer areas of private credit (asset-backed, real estate), energy transition, secondaries and infrastructure. Additionally, we expect its distribution channel mix to shift from US/institutional to private wealth, Asia and insurance. BX has formed 4 insurance IM agreements but could announce additional relationships in the future. However, we estimate BX's RE business is still relatively small compared to its TAM.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.76	5.17	4.14	6.13	7.27
GAAP EPS	9.19	9.98	8.45	11.78	13.53
EPS Change (YoY)	79.6%	8.6%	-19.9%	48.1%	18.6%
Consensus EPS (Bloomberg)			4.23	5.88	6.80
DPS	4.05	4.40	3.52	5.21	6.18
Valuation (Dec)					
P/E	23.6x	21.8x	27.2x	18.4x	15.5x
GAAP P/E	12.2x	11.3x	13.3x	9.6x	8.3x
Dividend Yield	3.6%	3.9%	3.1%	4.6%	5.5%

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Stock Data

Price	112.54 USD
Price Objective	117.00 USD
Date Established	20-Jul-2023
Investment Opinion	B-1-7
52-Week Range	71.72 USD - 114.96 USD
Mrkt Val / Shares Out (mn)	85231 USD / 757.3
Average Daily Value	486.27 USD
BofA Ticker / Exchange	BX / NYS
Bloomberg / Reuters	BX US / BX N
ROE (2023E)	0.5%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

IM: Investment management agreement

PE: Private equity

RE: Real estate

GP: General partner

BREIT: BX's private real estate fund for private wealth

BCRED: BX's private credit fund for private wealth

TAM: Total addressable market

iQprofileSM Blackstone

Economic Income (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Management fees	5,167	6,283	6,846	7,847	8,990
Other fees	2,025	1,449	1,208	2,234	2,217
Total fee-related revenue	7,192	7,732	8,054	10,080	11,207
Performance fees	3,883	4,461	2,377	3,803	5,107
Total revenue	11,663	12,590	10,529	14,048	16,502
Base compensation expense	(2,348)	(2,331)	(2,262)	(2,293)	(2,433)
Non-compensation expense	(794)	(989)	(1,037)	(1,115)	(1,237)
Total fee-related expenses	(3,142)	(3,320)	(3,299)	(3,408)	(3,670)
Performance fee compensation	(1,558)	(1,814)	(1,067)	(1,638)	(2,184)
Total expenses	(4,140)	(4,352)	(3,349)	(3,987)	(4,732)
Total fee-related earnings	4,051	4,413	4,755	6,672	7,537
Distributable earnings	7,490	8,207	7,204	10,057	11,770
Taxes	(760)	(792)	(808)	(970)	(1,166)
After tax distributable earnings	3,484	3,840	3,135	4,730	5,697
Distributable earnings per share	4.76	5.17	4.14	6.13	7.27
Distribution per share	4.05	4.40	3.52	5.21	6.18

Assets Under Management

Assets under Management - EOP	880,901	974,673	1,038,177	1,132,657	1,251,539
Fee Paying AUM	649,970	718,387	778,279	854,749	949,741

Company Sector

Asset Management

Company Description

Blackstone is the largest alternative asset manager globally. Blackstone manages investments and provides services across four operating segments, including Private Equity, Real Estate, Credit, and Hedge Fund Solutions. Blackstone has offices worldwide and is headquartered in New York. Blackstone was founded in 1985 and publicly listed on the NYSE in 2007.

Investment Rationale

We think the BX stock remains undervalued as its three- to five-year earnings growth trajectory and earnings quality transformation is still underappreciated. This is supported by significant growth potential in its retail and insurance businesses.

Quarterly Earnings Estimates

	2022	2023
Q1	1.55A	0.97E
Q2	1.49A	0.93E
Q3	1.06A	0.99E
Q4	1.07A	1.25E

Price objective basis & risk

Blackstone (BX)

Our price objective (PO) for Blackstone is \$117 and is derived from 20x 2025E cash earnings. 20x is consistent with BX's recent trading range and reflective of an improved fundamental outlook. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp expense. Risks to our PO are a weaker macro and capital markets backdrop, legal and political risk, increased regulation and tax reform, key person risk and a unique corporate structure.

Analyst Certification

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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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
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
	Janus Henderson Group	JUHDY	JHG AU	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



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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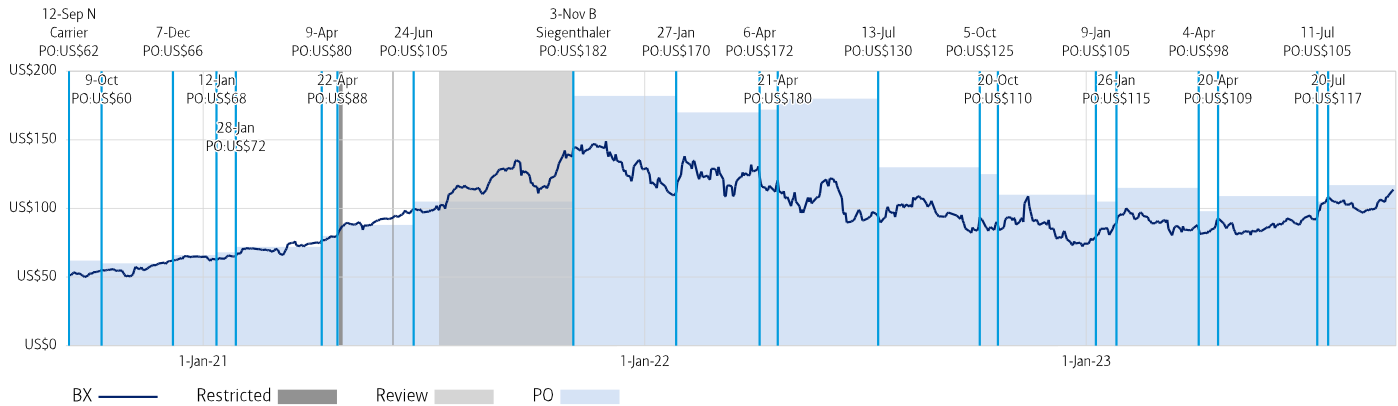
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Blackstone (BX) Price Chart



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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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