

## KKR &amp; Co. Inc.

# 4Q23E: It's not too late to Buy KKR; Maintain our 3-point thesis

Reiterate Rating: BUY | PO: 111.00 USD | Price: 93.58 USD

## It's not too late to Buy KKR; Maintain our 3-point thesis

Our three-point thesis (1. Fundraising acceleration, 2. Asymmetrical upside potential to income statement, 3. S&P 500 add) remains unchanged while we reiterate our Buy rating, as we view KKR is one of the best-positioned financial stocks for lower interest rates and an equity market recovery. Its next flagship fundraising cycle has now arrived with Infra V expecting a first close this year and Americas XIV and Asia V not far behind. We also see significant growth opportunities for KKR in the insurance and private wealth channels, which will diversify its growth mix. For these reasons, we look for strong FRE (fee-related earnings) growth and book value compounding over the next few years.

## Increasing 2025-26 EPS and PO; 20% total return

We raise our 2025/26 EPS estimates to \$5.94/\$7.03 from \$5.73/\$6.85 due to higher fundraising, transaction fees and realized performance fees. We increase our PO to \$111 (20% total return potential) from \$109 (still applying 17.5x our 2026 cash EPS estimate). Our cash earnings definition is ~20% lower than DE as it excludes stock-based comp (our standard valuation method for the Alts).

## Reiterate Buy – asymmetrical upside potential

We reiterate our Buy rating, as we are bullish on KKR's fundraising cycle, its income statement's asymmetrical upside into a recovery and potential for the stock to be added to the S&P 500 Index add. KKR's business is highly diversified with robust scaling opportunities in multiple verticals (infra, real estate, credit), broadly strong investment performance, core competency in product innovation and a best-in-class Asia privates franchise. Additionally, KKR's business model is the most oriented toward offense in the group, which caused its EPS revisions to underperform in the 2022 bear market. However, we believe this will lead to a significant profit growth accelerator as markets continue to recover.

## KKR will host its next investor day on April 10, 2024.

See page 3 for a Glossary of abbreviations and industry terms used in the report.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.10	3.42	4.53	5.94	7.03
EPS Change (YoY)	-2.6%	-16.6%	32.5%	31.1%	18.4%
DPS	0.62	0.66	0.70	0.74	0.78
Valuation (Dec)					
P/E	22.8x	27.4x	20.7x	15.8x	13.3x
Dividend Yield	0.7%	0.7%	0.7%	0.8%	0.8%

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Timestamp: 06 February 2024 07:49PM EST

06 February 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	109.00	111.00
2024E Rev (m)	7,425.7	7,413.3
2025E Rev (m)	9,271.1	9,851.0
2026E Rev (m)	11,299.6	11,587.0
2024E EPS	4.70	4.53
2025E EPS	5.73	5.94
2026E EPS	6.85	7.03

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## Stock Data

Price	93.58 USD
Price Objective	111.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	47.46 USD -93.69 USD
Mrkt Val / Shares Out (mn)	82,269 USD / 879.1
Free Float	75.7%
Average Daily Value	268.92 USD
BofA Ticker / Exchange	KKR / NYS
Bloomberg / Reuters	KKR US / KKR.N
ROE (2024E)	15.3%
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".

# iQprofile<sup>SM</sup> KKR & Co. Inc.

Economic Income (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Management fees	2,656	3,030	3,390	4,005	4,609
Other fees	91	94	106	153	212
<b>Total fee-related revenue</b>	<b>3,523</b>	<b>3,845</b>	<b>4,532</b>	<b>5,507</b>	<b>6,371</b>
Performance fees	2,177	1,065	2,574	3,824	4,534
<b>Total revenue</b>	<b>6,230</b>	<b>5,141</b>	<b>7,413</b>	<b>9,851</b>	<b>11,587</b>
Base compensation expense	(770)	(865)	(997)	(1,184)	(1,338)
Non-compensation expense	(586)	(596)	(680)	(812)	(924)
<b>Total fee-related expenses</b>	<b>(1,356)</b>	<b>(1,462)</b>	<b>(1,677)</b>	<b>(1,996)</b>	<b>(2,261)</b>
Performance fee compensation	(1,334)	(666)	(1,647)	(2,409)	(2,811)
<b>Total expenses</b>	<b>(3,139)</b>	<b>(2,631)</b>	<b>(3,862)</b>	<b>(4,981)</b>	<b>(5,688)</b>
<b>Total fee-related earnings</b>	<b>2,167</b>	<b>2,384</b>	<b>2,855</b>	<b>3,511</b>	<b>4,109</b>
<b>Distributable earnings</b>	<b>4,711</b>	<b>4,187</b>	<b>5,428</b>	<b>7,083</b>	<b>8,395</b>
Taxes	(744)	(763)	(1,002)	(1,397)	(1,734)
<b>After tax distributable earnings</b>	<b>3,667</b>	<b>3,025</b>	<b>4,029</b>	<b>5,283</b>	<b>6,253</b>
Distributable earnings per share	4.10	3.42	4.53	5.94	7.03
Distribution per share	0.62	0.66	0.70	0.74	0.78

## Assets Under Management

Assets under Management - EOP	503,897	552,801	644,656	714,078	779,474
Fee Paying AUM	384,656	429,166	482,198	549,203	613,042

## Company Sector

Asset Management

## Company Description

KKR a leading global investment firm that manages capital across several alternative asset classes including private equity, credit and real assets. KKR has a differentiated business model with a large balance sheet and a sizable capital markets business. KKR has offices worldwide and is headquartered in New York. KKR was founded in 1976 and publicly listed on the NYSE in 2010.

## Investment Rationale

KKR has successfully diversified its businesses away from private equity and the US market and now has multiple small to mid-sized businesses that are scaling quickly in parallel. This includes infrastructure, real estate, credit, insurance and in Asia. We look for these businesses to help KKR generate mid-teen FFE and book value growth over the next three years.

## Quarterly Earnings Estimates

	2023	2024
Q1	0.81A	1.01E
Q2	0.73A	1.08E
Q3	0.88A	1.17E
Q4	1.00A	1.27E

## Additional details

### Next flagship fundraising cycle has arrived; expect >50% increase in fundraising

KKR has entered its flagship fundraising super cycle, which should power strong net flows throughout 2024-26. Global Infrastructure V (\$17B prior vintage) is currently raising, while Americas XIV (\$18B prior vintage) will begin raising later in 2024 and Asian Fund V (\$15B prior vintage) will come to market in 2025. On top of these three flagship funds, KKR expects 22 of its 30 total strategies to come to market in the next 18 months. We forecast a >50% y/y increase in fundraising to \$115B in 2024.

### Expanding in the wealth channel with broad product suite (K-Series)

KKR now has \$75B of AuM from individuals and this does not include annuity AuM from Global Atlantic. Its dedicated wealth products are branded the K-Series and include an estimated \$6B of AuM. This includes KREST (real estate, \$1.3B AuM), K-INFRA & KIF (infrastructure, \$1.6B AuM), K-PRIME & K-PEC (private equity, \$1.8B AuM) and KKR is expected to launch a private BDC this year. With its broader product line-up and larger sales force, we expect fundraising activity to accelerate in 2024-25.

### Multiple tailwinds in the ABF market; KKR's scale is an advantage

With its deep penetration in the insurance channel and its \$48B asset-backed finance (ABF) footprint today, KKR is well-positioned to capitalize on the void created by capital-constrained regional banks. The \$5T ABF market has historically been largely dominated by banks, but as higher interest rates and new regulations (Basel 3) have put pressure on bank balance sheets, US banks have retrenched. Given their risk/return profile, investment grade ABF assets are best suited for insurance SMAs, and KKR has approximately 150 insurance relationships, 20 origination platforms, and over \$160B of insurance assets under management through Global Atlantic. KKR closed the \$13B MetLife block reinsurance transaction in 4Q23 and is expected to close the \$10B Manulife block transaction in 1H24 (estimate 2Q24). Along with these two transactions, we anticipate more ABF transactions/partnerships in the future despite heightened competition from other Alt managers.

## Glossary

ABF: Asset-backed finance  
 AUM: Assets under management  
 DE: Distributable earnings  
 PE: Private Equity  
 RE: Real Estate  
 KIF: KKR Infrastructure Fund  
 K-INFRA: KKR Infrastructure Conglomerate LLC  
 K-PEC: KKR Private Equity Conglomerate LLC  
 K-PRIME: KKR Private Markets Equity Fund  
 KREST: KKR Real Estate Select Trust

## Price objective basis & risk

### KKR & Co. Inc. (KKR)

Our price objective for KKR is \$111 and is derived from 17.5x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. We apply the multiple on our normalized cash earnings forecast for KKR's asset management business.

Downside risks: Strong capital deployment activity in the frothy years (2020-21), valuation complexity with FRE, expense allocations, insurance business and capital intensive model, business model is private equity heavy and this business is experiencing multiple cyclical headwinds (returns - inflation & bear market, fundraising - crowded backdrop, denominator effect), insider-selling potential, KKR's voting structure may prevent an S&P 500 Index add.

## 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.

## Special Disclosures

BofA Securities is currently acting as buy-side advisor to Frontier Tower Associates Philippines Inc, a regional telecom infrastructure platform backed by KKR to acquire a portion of telecoms towers from Smart Communications, a wholly owned subsidiary of PLDT Inc, which was announced on March 17, 2023.

### US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA

## US - Brokers, Asset Managers, &amp; Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

**iQmethod<sup>SM</sup> 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 &amp; 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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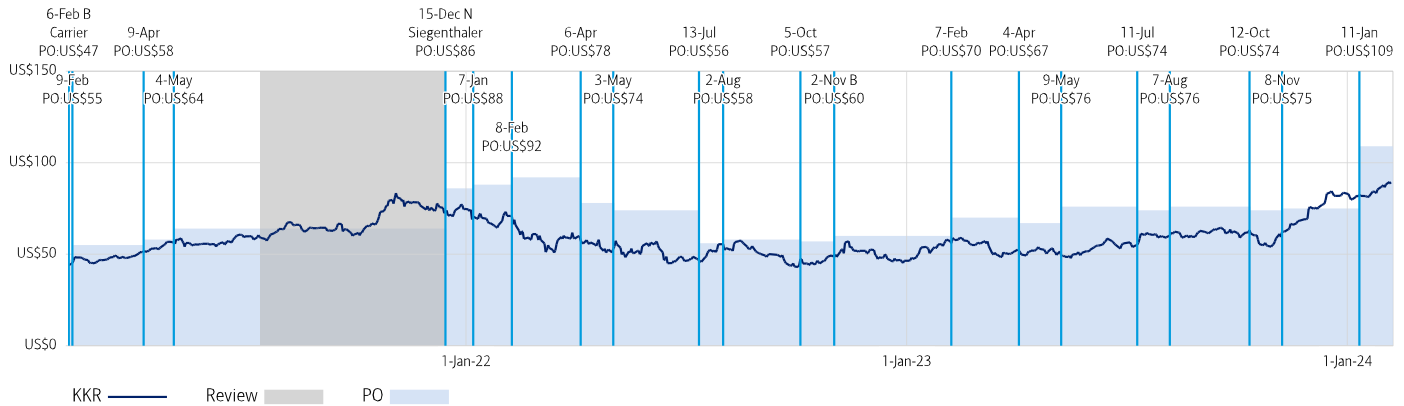
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### KKR & Co. Inc. (KKR) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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