



TRINITY SMF

STUDENT MANAGED FUND

Equity Research Report

BlackRock

November 2020

BlackRock Inc.

BlackRock is the world's largest asset manager with \$7.8 trillion AUM as of Q3 2020. Following strong results on the back of Covid-19, we reiterate our Buy thesis.

We forecast increasing net inflows to push total AUM to new highs above \$8 trillion in 2021. We also expect an improvement in the base fee organic growth rate.

Combining our macro-view thesis of increasing investor preference for Passively managed funds, with our DCF analysis which gave BlackRock an implied upside of 24%; we have a strong foundation for our Buy thesis.

Regulatory scrutiny is an increasing risk, with advisors for the new US administration recommending Aladdin be split-off to reduce conflicts-of-interest, damaging future growth potential.

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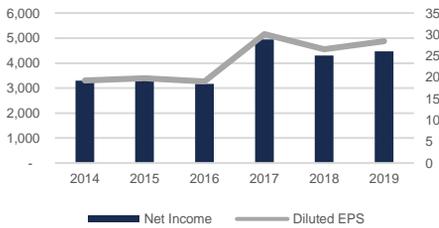
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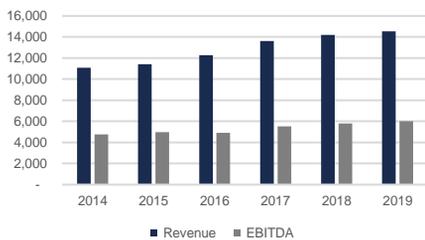
BlackRock AUM Growth (\$bn)



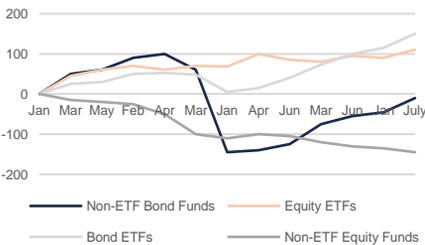
Net Income (\$bn) & Diluted EPS



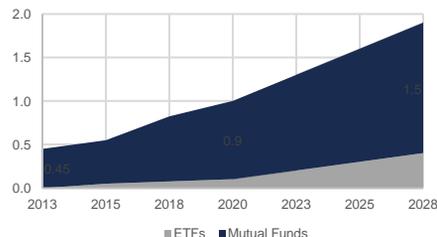
Revenue & EBITDA (\$bn)



ETF Inflows vs Non-ETF Outflows (\$bn)



Projected Passive AUM Growth (\$tn)



Business Overview

BlackRock is the world's largest asset management firm with over \$7.8 trillion in AUM as of Q3 2020

They help both institutional and retail investors to achieve their financial goals by offering a complete range of investment and risk management products through their services and technology platforms

Investment solutions comprise a variety of index and alpha funds as well as individual portfolio construction which enables the firm to tailor investments to the desired allocations and outcomes of clients

Their iShares exchange-traded funds (ETFs) provide investors with an accessible, transparent vehicle to track indices and generate returns at a relatively low cost which has seen their popularity surge recently iShares AUM have more than tripled in size since 2009 when acquired, now accounting for 30% of BlackRock's total AUM

Technology platforms Aladdin and eFront combine to form the industry-leading investment and risk management operating system, used both in-house and by over 55,000 investment professionals worldwide Technology revenue grew 24% YOY reflecting the value added by eFront to the platform and Aladdin's stable recurring contracts

Investment Thesis

BlackRock are the largest asset manager by AUM in an industry which is suffering from increasing fee compression. Positive net inflows are necessary to maintain current performance and continued investment will ensure longevity and prosperity in the market going forward

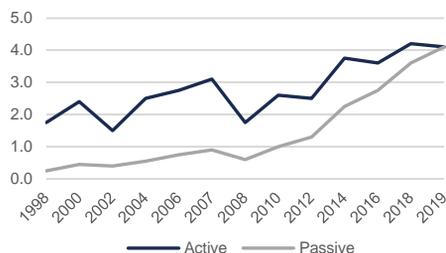
Expanding their global footprint in pursuit of growth in the emerging market middle class is attracting inflows from outside of the US and Europe. BlackRock are pushing to become the leading foreign asset manager in China as it opens the doors to its \$14tn industry

Recent COVID savings, disposable income and market performance have added net positive inflows and bolstered strong net income growth which we expect to continue over the short term

BlackRock's proven M&A record with iShares and eFront demonstrates its ability to consistently seek out strategic investments in key business areas that contribute in the long run to positive organic growth

Positioning itself as an industry leader in ESG has benefitted the brand by attracting a share of the growing stakeholder-conscious market

Active vs Passive – US Equity (\$tn)



Industry Overview

Asset managers perform a range of duties; they can advise institutional and individual investors on their wealth, invest funds on the client's behalf or provide tools and services for clients to use independently. BlackRock boasts the greatest AUM with \$7.8tn, followed by Vanguard Group (\$5.7tn), Fidelity Investments (\$3.3tn) and State Street (\$3tn)

Active management remains at the core of the industry, although passive and alternatives have grown from 21% of AUM in 2013 to 41% today for the industry as a whole

Compression of fees driven by regulatory changes, technology and the overall increasing power of investors is forcing BlackRock and other incumbents to invest in technology and alternatives to reduce costs and generate new income streams like Aladdin's recurring subscription

Consolidation in also is causing disruption within the industry as major players try to maintain market share, cut costs and gain access to new technology and markets by integrating with other firms (e.g. Morgan Stanley with Eaton Vance & Franklin Templeton with Legg Mason) BlackRock can leverage its size to acquire existing businesses which they believe add value to their operations and limit competitive forces

Risks

Fee compression: downward pressure on organic growth and increasing outflows from active to passive are driving lower fees.

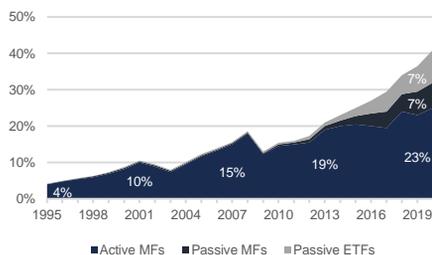
BlackRock currently generates 81% of revenue from base fees, although key areas such as ETFs and Alternatives are a growing share. BlackRock's size insulates them from fee compression more than the rest of the industry

Regulatory scrutiny: there have been recent calls for the separation of BlackRock and Aladdin due to conflicts of interest; errors on the platform will cause massive ripples across the market due to its reach A push for limits to the amount of shares asset managers can hold in corporations will drastically impact the ability to accurately track indices

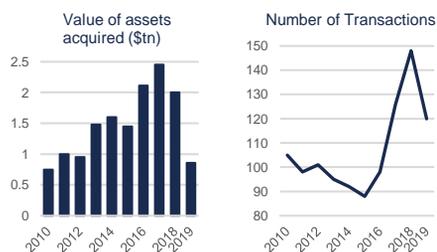
Economic slowdown: with global equity markets soaring over the past decade, a possible slowdown could stagnate growth and impact fees generated on all asset classes leading to weaker performance

ETF markets: Liquidity issues with underlying assets during COVID left some ETFs trading at high discounts to their NAVs, but it seems this was a one-off event, during a period of extreme volatility. The addition of synthetic ETFs to BlackRock's arsenal increases risk as they are based on the value of underlying derivatives, not equities

Passive Funds Share of Total AUM (%)



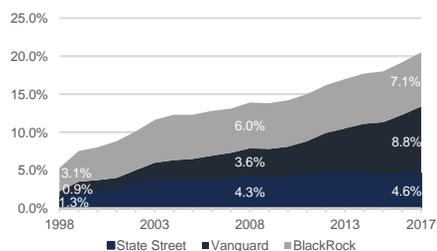
M&A Activity in Asset Management



Average Asset Management Fees (%)



Corporate Equity held by Big 3 (%)



Financial Summary

Income Statement

	2018	2019	2020E	2021E
Revenue	\$14,198	\$14,539	\$15,779	\$16,852
EBITDA	\$5,627	\$5,859	\$6,312	\$6,741
% margin	39.6%	40.03%	40.0%	40.0%
EBIT	\$5,457	\$5,551	\$6,154	\$6,572
% margin	47.9%	48.7%	39.0%	39.0%
Net Income	\$4,305	\$4,476	\$4,317	\$4,625
% margin	30.3%	30.8%	27.4%	27.4%

We expect the margins to decrease slightly into the future as their expense management programme isn't as effective at controlling costs. They should remain at elevated levels though as we still expect strong revenue growth, close to its 5 yr CAGR of 6.3%. We predict BlackRock will continue to benefit from the continuation of investors moving to passive funds with steady inflows. We also don't expect much more fee compression over the next few years, as there isn't as much space to cut them further.

Capital Structure

	As of 24/11/2020
Current Share Price	\$682.87
No. of Shares Outstanding	152.5
Equity Value	\$104,138
(-) Cash & Equivalents	(\$6,507)
(+) Total Debt	\$7,993
(+) Non-Controlling Interests	\$2,143
(+) Preferred Stock	\$0
= Enterprise Value	\$107,581

Debt/Equity remains well below industry average of 1.30. Cash & Equivalents covers approx. 80% of their total debt.

NCI still remains at ~ \$2 billion, however Preferred Stock has been eliminated with the sale of PNC's share in the company occurring in May 2020.

Key Financial Metrics

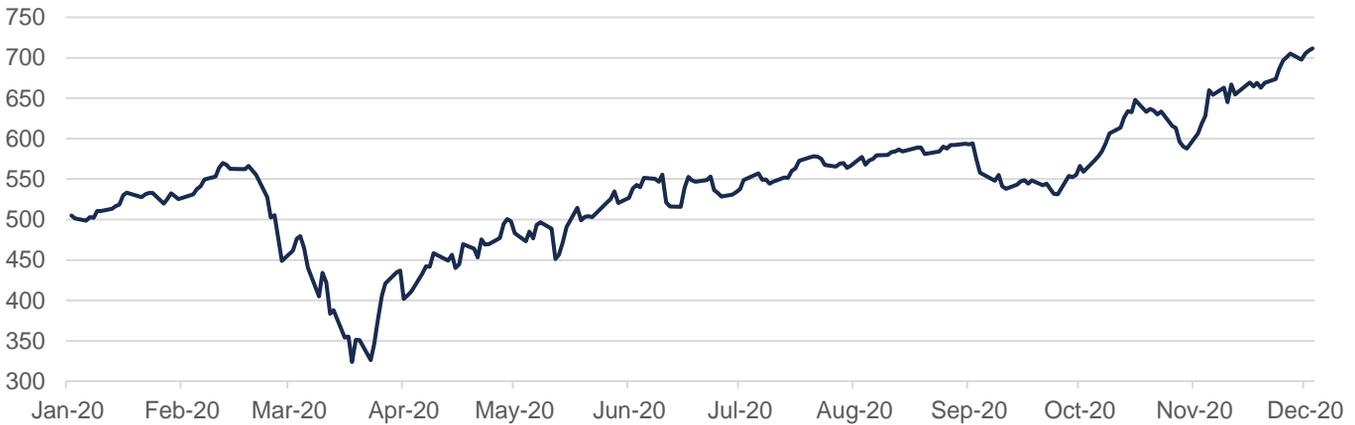
	Firm	Industry
AUM Growth*	12.46%	8.28%
Gross Margin	50.9%	56.3%
EBITDA Margin	40.0%	41.6%
Net Income Margin	29.8%	18.2%
ROE	14.0%	11.0%
ROA	2.1%	5.0%
Beta	1.21	1.35
Sharpe Ratio	0.47	0.16

AUM Growth is incredibly important for Passive managers and BlackRock have far outperformed the industry.

Gross margin is 5.4% lower than industry, while Net Income margin is 11.6% higher. BlackRock's Sharpe Ratio is nearly 3x industry average.

*5 yr CAGR

BlackRock Share Price 2020 YTD



Valuation

Comparable Companies Analysis

BlackRock's multiples show the company is trading at a premium to the Asset Management industry. The PEG ratio somewhat explains this premium, as competitors facing increased pressure from fee compression as well as net outflows, are expecting declining earnings.

BlackRock expect stronger inflows and sustained competitive advantage due to their scale. In this context, the premium placed on BlackRock is expected.

Vanguard (a private company) and State Street are BlackRock's closest competitors, but even State Street has ~\$5 trillion less AUM than them. Other less direct competitors include Invesco, T.Rowe Price, Franklin Resources, Blackstone, Affiliated Managers & Northern Trust.

Discounted Cash Flow Analysis

Our DCF gave BlackRock an Implied share price of ~\$850, an upside of 24% compared to its current share price of \$683. This was achieved assuming a Perpetuity Growth Rate of 2%, well below BlackRock's revenue growth rate over the past 5 years of 6% and also below the target organic growth rate set by management of 5%.

	Firm	Industry
P/E	20.9	12.9
Fwd. P/E	19.5	11.7
PEG	2.1	-1.9
P/B	3.0	2.4
P/S	6.5	5.2
EV/EBITDA	17.4	17.2
Debt/Equity	0.2	1.3

DCF Output: 2% Perpetuity Growth

Enterprise Value	\$61,209
Less: Total Debt	(\$6,677)
Less: Preferred Stock	\$0
Less: Noncontrolling Interest	(\$959)
Plus: Cash and Cash Equivalents	\$5,141

Implied Equity Value **\$58,714**

Fully Diluted Shares 737

Implied Share Price	\$79.67
Current Share Price	\$66.01
Implied Upside	20.7%

DCF Output: 20.0x Exit EV/EBITDA Multiple

Enterprise Value	\$66,137
Less: Total Debt	(\$6,677)
Less: Preferred Stock	\$0
Less: Noncontrolling Interest	(\$959)
Plus: Cash and Cash Equivalents	\$5,141

Implied Equity Value **\$63,642**

Fully Diluted Shares 737

Implied Share Price	\$86.35
Current Share Price	\$66.01
Implied Upside	30.8%