

FINANCIALS

Barron's Stock Pick: Buy AllianceBernstein for Its Dividend and Its Growth

By Andrew Bary

Asset managers are hot properties at the moment. Activist investor Nelson Peltz has taken stakes in Invesco and Janus Henderson Group, pushing them to merge, while Morgan Stanley has agreed to pay \$7 billion for Eaton Vance.

One of the hottest in the industry should be AllianceBernstein. It offers a growth story and a nearly 9% yield.

"This is a unique company in the asset management industry," says Alexander Blostein, an analyst at Goldman Sachs. "Not many companies are growing in the actively managed space."

Yet AllianceBernstein generates little attention because of its partnership structure and thin public float. The public portion of the company, AllianceBernstein Holding (ticker: AB), owns 35%, while Equitable Holdings (EQH), the life insurer, holds the other 65%. The partnership units, now around \$30, trade inexpensively at 11 times projected 2020 earnings of \$2.67 a unit and 10 times estimated 2021 profits of \$3.01.

Blostein, who has a Buy rating and \$32 price target, says the distribution (the partnership equivalent of a dividend) offers "compelling income with some embedded growth."

He sees 10% to 15% annual growth in earnings per unit in the coming years, after a mid-single gain in 2020, driven by organic growth and cost-cutting. Given the company's structure, any earnings gains can be expected to flow through to investors in added distributions.

AllianceBernstein aims to save a projected \$75 million to \$80 million a year by 2025 by moving its headquarters to Nashville from Manhattan. (Its investment profes-



Seth Bernstein, CEO of AllianceBernstein
Photo supplied by AllianceBernstein

sionals can stay in New York.) That 2018 decision looks smart, given New York's economic woes stemming from the pandemic.

Formed in 2000 from the merger of the growth-oriented Alliance Capital Management with the value-oriented Sanford Bernstein, AllianceBernstein runs \$643 billion in institutional, retail, and high net-worth accounts. Nearly half, or \$313 billion, is in bonds, \$255 billion is in equities, and \$75 billion is in other strategies, including hedge funds, such as the \$3 billion Arya.

One possibility is the purchase of the public shares by Equitable. The life insurer

and its former parent, Axa (CS.France), have controlled AllianceBernstein for more than 25 years.

Credit Suisse analyst Andrew Kligerman has written that "it seems possible that Equitable would buy the remaining AB float." His view is that such a deal at a 25% premium would be accretive to Equitable's earnings. Investors can also play AllianceBernstein via Equitable, whose shares, at around \$21, trade for just five times projected 2020 earnings.

If Equitable paid \$37 for AllianceBernstein, that would be about 12 times expected

(over please)

The Asset Test

How AllianceBernstein stacks up against asset-management peers.

Company / Ticker	Recent Price	YTD Chng	Mkt Val (bil)	2020E EPS	2020E P/E	2021E EPS	2021E P/E	Div Yield
AllianceBernstein Holding / AB	\$29.74	-1.7%	\$2.9	\$2.67	11.1	\$3.01	9.9	8.9%
BlackRock / BLK	604.44	20.2	92.8	30.09	20.1	33.09	18.3	2.4
Franklin Resources / BEN*	22.32	-14.1	11.1	2.59	8.6	2.67	8.4	4.8
Invesco / IVZ	12.95	-28.0	5.9	1.60	8.1	1.75	7.4	4.8
T. Rowe Price Group / TROW	140.83	15.6	32.0	8.72	16.2	9.62	14.6	2.6

*Fiscal year ends in September. E=Estimate. Sources: Company reports; Bloomberg

2021 profits. Eaton Vance is being acquired for 17 times estimated 2021 earnings.

At an investor conference in September, Equitable CEO Mark Pearson called the company's relationship with AllianceBernstein "mutually beneficial." Asked about increasing its stake in the money manager, he replied: "We're very happy with the current position we have with AB, and we look at it from time to time."

AllianceBernstein distributes 100% of its net income to holders, resulting in a high, but irregular, payout that now results in an 8.9% yield, based on projected distributions this year.

The company was grandfathered as a partnership during the Reagan era, notes New York accounting expert Robert Wilens. The result is that it pays an effective

tax rate of about 10%, likely insulating it from a potential increase in corporate taxes if Democrats sweep the election. Investors do have to deal with the hassle of getting a K-1 tax form, however.

Relentless fee pressures and the rise of exchange-traded funds and passive investing pose challenges for all asset managers. Still, AllianceBernstein is valued more like sluggish peers, such as Invesco (IVZ) and Franklin Resources (BEN) than higher-growth BlackRock (BLK) and T. Rowe Price Group (TROW), even though its outlook is more akin to the latter two's.

"We have been able to couple differentiated investment performance with strong distribution capabilities and that has driven growth in AUM (assets under management)," says Ali Dibadj, the head of strategy

at AllianceBernstein who will become chief financial officer in February.

CEO Seth Bernstein says: "We're very much focused on active management and improving our margins."

Inflows into higher-margin active equity assets grew at a 4% annual rate from 2017 through the middle of 2020, against a peer average of a 5.7% yearly decline.

Performance has been strong in equities: 67% of funds or strategies beat benchmarks over the three years ending in June. But only 45% of bond assets were ahead of benchmarks over the three years ending in June, against 81% at the end of 2019.

AllianceBernstein operates an attractive private-wealth management business that uses a lot of proprietary products; most wealth managers have moved away from that model. Private wealth accounts for about \$100 billion of assets, roughly 15% of the total, but about a third of fees.

"Alliance is positioned to generate organic growth across a broad range of strategies and geographies with improving profitability," says KBW analyst Robert Lee, who has an Outperform rating and \$31 price target.

Firms like Blackstone Group (BX) and KKR (KKR) have switched to corporate structures from partnerships, but AllianceBernstein likes the way it is. "Remaining a publicly traded partnership makes a lot of sense," Dibadj says.