



1 Canadian Stock I'm Buying in 2014

Description

Investing legend Peter Lynch is noted for saying that, "the best stock to buy may be the one you already own." I've found that wisdom to be true over the years. That's why as I've considered where to put my excess cash to work, the one Canadian stock that I'm most compelled to buy is one I've owned for years: **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)). Here's why.

Compelling current value

At its analyst day last September, the management team delivered a very compelling presentation that detailed the value of the company. According to the company, shares should trade for around \$45 based on its very conservative valuation of the company. That suggests that shares are trading for nearly a 20% discount to the company's current value.

Brookfield believes its valuation is conservative for a number of reasons. First, the company owns real tangible stakes in publicly traded companies that provide a basis for its value. For example, at the time of the analyst day Brookfield owned 28% of the outstanding units of **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)) as well as 93% of **Brookfield Property Partners** ([TSX:BPY.UN](#))([NYSE:BPY](#)), in addition to a number of other listed entities. Overall, 85% of Brookfield's invested capital is held through listed issuers. That said, it believes that many of these assets are currently undervalued by the marketplace.

Even so, where the true value discrepancy lies is the fact that Brookfield sees investors ascribing virtually no value to its growing asset management franchise. This includes growing fee based capital and incentive distribution rights that the company is getting from managing these listed entities. Over time, Brookfield believes investors will eventually see that value in this franchise and adjust the value of its stock accordingly. However, that's just part of the story. <

Enormous future upside

Over the long term, Brookfield sees its compounding machine fueling a rapid expansion of fee bearing capital. That capital will continue to be recycled through the business to generate more returns. If the past is any indication, Brookfield should be able to earn returns on invested capital in excess of its 12%-15% annualized target. To that end, the company sees the future value of its shares at \$83 to \$116 by

2018. That's an annualized return of 14%-22% for shareholders buying Brookfield today.

Brookfield's track record speaks for itself. Since 1989, the company's property business, which is now housed in Brookfield Property Partners, has grown its assets under management by 13% annually. That has yielded annualized total returns of 15% for its investors. Meanwhile, Brookfield Infrastructure Partners has done even better on an annualized basis as it has achieved total annualized returns of 18% since 2008.

Foolish bottom line

I could go on, but Brookfield is a company that has continued to create value for its investors over the long term. In fact, over the past 10 years Brookfield's stock has produced 20% annualized total returns. I expect that investors will enjoy similar returns over the next decade, which is why the one Canadian stock I'm buying this year just happens to be one I already own.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

Category

1. Investing

Date

2025/08/26

Date Created

2014/01/22

Author

mdilallo

default watermark

default watermark