



3 Reasons to Choose Brookfield Asset Management Inc. Over Valeant Pharmaceuticals Intl Inc

Description

Brookfield Asset Management (TSX: BAM.A)([NYSE: BAM](#)) and **Valeant Pharmaceuticals** (TSX: VRX)(NYSE: VRX) are two of Canada's most successful companies. And in recent times, their stock prices have reflected as much. In the past five years, Brookfield shares have increased by 140%, and Valeant's shares have fared even better, up a whopping 772%.

That being said, both companies have their detractors, and it is easy to see why. They are both very complex, lack transparency, and arguably have employed aggressive accounting.

Yet there are some important differences between the companies too. Below we highlight three of them, and show you why Brookfield is the better option.

1. Real earnings

Make no mistake: both companies have earnings quality issues.

Brookfield owns various assets all over the world, including commercial real estate, renewable energy assets, and other infrastructure projects. How much are these assets worth? Put simply, they're worth what Brookfield says they're worth. The company does use external valuations, but mostly for guidance only; the company's internal valuations reign supreme.

But Valeant's earnings quality is even worse. The company reports various measures – such as adjusted operating earnings and cash earnings – that exclude some important costs, such as those related to acquisitions.

But here's the difference: Brookfield gets paid to manage outsiders' money, resulting in \$300 million in fee-related earnings just last year. Overall, the company made over \$3 in earnings per share. Meanwhile, Valeant *lost* nearly \$3 per share in 2013.

2. Easier to understand

Again, both companies are very opaque, and wrapping your head around them is not easy.

But Brookfield has made some strides. And better yet, many of its assets are held in publicly-traded entities. So that results in a lot more transparency. The company also does a good job breaking out how much outsider money it earns fees from (\$79 billion as of the end of last year), as well as how much fees this results in.

Valeant is a different story. To put this into proper context, the company's lifeblood is acquisitions. That is how the company grows, and that is how it (supposedly) creates value for shareholders. But acquisitions by nature are very complex, and come with various costs. So when looking at the company as a whole, deciding just what the company is worth is practically impossible.

3. A longer track record

This may be the most important difference between the two companies. On one hand, Brookfield has been managing money wisely for decades. In fact, the company's share price had returned 19% per year from 1994 to 2013. Over a time period that long, you can't chalk it up to luck.

On the other hand, Valeant is the product of a merger between two struggling pharmaceutical companies, Biovail and Valeant. And the company's more recent success can be attributed to new CEO Michael Pearson's acquisition-first strategy.

But many are convinced that this success will be short-lived. And without a track record as long as Brookfield's, Valeant has not proven these people wrong. Your best bet is to not take the chance.

CATEGORY

1. Investing

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2. NYSE:BN (Brookfield Corporation)
3. TSX:BHC (Bausch Health Companies Inc.)
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