Brookfield Asset Management Inc.: a Low-Risk Growth Opportunity for Investors Seeking Global Exposure

Description

Recently, I lifted the veil on two of **Brookfield Asset Management Inc.'s** (TSX:BAM.A)(NYSE:BAM) listed subsidiaries, **Brookfield Infrastructure Partners L.P.** and **Brookfield Renewable Energy Partners L.P.** Both represent solid investment opportunities, but Brookfield Asset Management may be the best investment for investors seeking growth-oriented, low-risk exposure to a diversified portfolio of mainstream and alternate assets.

Now what?

Brookfield's globally diversified portfolio of assets totaling US$207 billion encompasses property, infrastructure, and energy assets as well as private equity funds. It holds 62% interest in property manager **Brookfield Property Partners L.P.**, 63% in Brookfield Renewable Energy Partners, and 29% in Brookfield Infrastructure Partners.

Its portfolio is diversified across different asset classes and different economic and sovereign jurisdictions, providing it with a range of growth-enhancing characteristics while also mitigating investment risk.

Key among these characteristics is its exposure to fast-growing emerging economies coupled; it is also operating in highly regulated industries with oligopolistic characteristics and steep barriers to entry. This endows them with wide multifaceted economic moats that protect their competitive advantage as well as earnings, while also enhancing their long-term growth prospects.

Furthermore, demand for these assets and the services provided by Brookfield's underlying businesses in many cases remains relatively inelastic because they are key components of modern economic activity. This not only protects earnings and cash flow, but also virtually guarantees growth during times of increased economic activity and rising populations.

As a result of this high-quality asset base, Brookfield has achieved some spectacular growth in recent years, and reported consistently strong financial performances despite the headwinds afflicting the global economic outlook. For the last five years fee revenue has grown at a compound annual growth rate, or CAGR, of 29%, whereas total revenue has a CAGR of 8%, and cash flow has an impressive 16%. The value of its underlying assets has also grown strongly; its net-tangible assets, or NTA, has a CAGR of 18% for the same period.

More importantly for investors, there are signs that this impressive rate of growth can only continue.

Brookfield is committed to an extensive acquisitions program that is to be funded from the US$5 billion in liquidity that it has available. This leaves it well positioned to pick up an assortment of bargain-priced assets in industries that have fallen into disfavour because of the deep cyclical downturn in commodities.

These funds, along with its considerable experience in managing alternate assets, will also allow Brookfield to profit from two secular trends that are shaping our modern world. These are the global need for further infrastructure to support economic development, and the swelling demand for renewable energy.

The end result is that growing populations and economic activity, coupled with these secular trends, drive higher utilization rates for property, infrastructure, and energy assets over the long term, boosting Brookfield's earnings.

So what?

With a dividend yield of 1.3% Brookfield is not a compelling yield play like its listed subsidiaries. What it does offer investors is the ability to make a low-risk investment with exposure to a range of assets with defensive characteristics across different emerging and developed markets without leaving the safety of Canada.

For these reasons I expect Brookfield to deliver on its promise of achieving 12-15% compound annual growth per share over the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/08/03
Date Created
2015/07/09
Author
mattdsmith