

Will Brookfield Asset Management Inc. Reach US\$74 Per Share?

Description

Over the past 20 years, alternative asset manager **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)) has generated an 18% annual return for its shareholders, which is certainly a very respectable number. And the future looks very promising as well.

While presenting at Brookfield's annual Investor Day last October, CEO Bruce Flatt claimed that if the company achieves its targets, the shares should trade at US\$150 in 10 years. CFO Brian Lawson gave more of a near-term target, saying that the shares could trade at US\$74 in five years based on very reasonable assumptions.

We'll break down Mr. Lawson's thinking.

Brookfield: an overview

Brookfield manages three publicly traded funds: **Brookfield Property Partners**, **Brookfield Renewable Energy Partners**, and **Brookfield Infrastructure Partners**. The company also runs a number of private funds through its Private Equity division.

This allows Brookfield to make money in two ways. First of all, the company charges these funds management fees. Secondly, Brookfield invests its own capital in these funds alongside clients, generating an investment return for itself.

The breakdown

Brookfield's value can thus be divided into two parts: fees and capital. Regarding investment fees, Brookfield charges two types: base fees and carried interest.

Base fees are calculated based on total assets under management; for example, Brookfield charges 1.25% on its public funds. And the company thinks it can grow earnings from these fees at 21% annually over the next five years. Carried interest is based on investment performance, which is harder to predict (especially while so many funds are at their early stages). But Brookfield thinks it can grow its annual carried interest income at 13% annually.

Brookfield also thinks it can grow its own capital at 12-15% per year, which seems very achievable given past performance. This would result in over US\$50 billion of capital by 2020. When adding it to the value of fee-related earnings and subtracting net debt, Brookfield would be worth US\$75 billion, or US\$74 per share. Based on today's share price, that would equal a return of just over 16%.

The risks

Brookfield does not come without risks. Two in particular stand out.

First of all, the numbers above assume that Brookfield continues to make wise investments. So if there

are any execution errors or the company loses its focus at all, then the stock price will suffer.

More importantly, Brookfield is known to be an opaque company, one in which you have to rely on management's word when estimating how much the company is worth. To be fair, this is partially mitigated by the fact that most of Brookfield's assets are in publicly traded vehicles. But this is certainly a risk you have to be aware of.

That being the case, Brookfield is an excellent option for long-term investors, and today's stock price doesn't fully reflect that.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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