



Why Brookfield Asset Management Inc. Belongs in Your Portfolio

Description

Brookfield Asset Management Inc., (TSX:BAM.A)([NYSE:BAM](#)) is a global asset management company with assets scattered across Canada, the U.S., Australia, the U.K., and Brazil. Its asset portfolio tops \$250 billion.

Brookfield's business model

Brookfield's business model is largely dependent on identifying distressed assets wherever they may be around the world and capitalizing on the opportunity those assets present. Once acquired, Brookfield turns the business around or waits for market conditions to improve before selling. Either way, Brookfield turns a healthy profit.

Identifying distressed assets is a very particular skill—one that Brookfield has grown particularly good at. In terms of the assets that Brookfield targets, they can be fairly large—think railroads, ports, or large factories.

Brookfield is rumoured to be in the process of closing one of the biggest asset deals ever—the purchase of more than 80% of the natural gas—distribution network of Brazil-based Petroleo Brasileiro SA, known as Petrobas.

That deal is estimated to be worth between US\$5.5 billion and US\$6 billion.

Petrobas is in the midst of a plan to sell assets and halve its debt within three years. The urgency stems from a staggering amount of debt that's due over the next three years. That urgency creates the type of environment and conditions that Brookfield looks for.

Quarterly update

Earlier this month Brookfield reported total revenue of \$5,973 million, an increase over the \$4,923 million posted in the same quarter last year—net income of \$584 million, or \$0.15 per share. This represents a decline from the \$1,199 million posted for the same quarter last year. The decline can be attributed to a higher level of valuation gains from property operations in the prior year.

Funds from operations came in at \$637 million, or \$0.62 per share, for the quarter, representing an increase of \$137 million, or \$0.12 per share, over the same quarter last year.

During the quarterly update, Brookfield singled out the Brexit vote and the fallout from the surprise decision, specifically relaying the importance of both London and the U.K. in international business and real estate, irrespective of whether the country remains in the E.U. or not.

Brookfield has a total of 12 businesses operating in the U.K., which includes 12,000 people and \$25 billion in assets. While there is concern about the potential long-term outcome of what the vote will mean for Brookfield's U.K. businesses, the company has provided shareholders with three possible scenarios that are all viable and favourable outcomes.

First, negotiations between the U.K. and the E.U. (which have yet to begin and could take up to two years) could result in a deal that's favourable to all. The second scenario is what Brookfield refers to as a Singapore setting; essentially the U.K. would become an island adjacent to one of the largest trading blocks in the world, reaping the rewards. The third scenario calls for prolonged negotiations that ultimately result in the leave desire fading away.

Brookfield continues to be, in my opinion a great long-term investment option. The company has massive amounts of capital and is able to consistently seek out and acquire distressed assets, and provide value to shareholders.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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