



## Brookfield Asset Management Inc. Is Getting Ready to Cash In on the Energy Rebound

### Description

Leading Canadian alternative asset manager **Brookfield Asset Management Inc.'s** (TSX:BAM.A)([NYSE:BAM](#)) investment approach focuses on two things. First, it purchases for value by acquiring when capital is scarce. Second, it makes repeatable investments to build scale that drives value creation as industry conditions improve.

It is an approach that has enabled the company to deliver market-beating returns for decades, and one that has recently positioned the company to cash in on the emerging rebound in the energy market.

### Buying for value

Brookfield's value approach often leads it to distressed industries that require capital, operational expertise, and a long-term outlook. That certainly describes the Canadian natural gas segment over the past few years, where a glut of gas due to emerging shale plays pushed down prices. That downturn caught several gas producers off guard, causing them to seek outside capital to stay afloat.

One such company was Ember Resources, which is a Canadian coal bed methane producer that Brookfield helped recapitalize in 2011. At that time Brookfield and its partners paid just \$106 million to take Ember private because it was deeply in debt and facing a credit crunch. By taking the company over and restructuring it, Brookfield was able to get Ember's finances back on solid ground.

### Making repeatable investments

From there, Ember was able to start phase two of Brookfield's approach and make repeatable acquisitions by rolling up rivals and increasing its scale. Those transactions began in 2012 when the company paid \$31 million for the coal bed methane assets of another producer.

A year later Ember acquired properties from **Apache Corporation** for \$220 million. That transaction enabled the American oil and gas producer to cash in on some of its non-core assets, while boosting Ember's scale because those assets were adjacent to its own in Alberta.

Finally, last year Ember completed the purchase of **Encana Corp's** Clearwater assets for \$605 million. This transaction continued Ember's roll-up strategy, whereby it has consolidated a significant land and production base in the coal bed methane-producing region of Alberta.

As a result of these transactions, Ember has more than tripled its size since Brookfield took over and is now producing 300 million cubic feet of natural gas per day. That makes it the largest coal bed methane producer in the country and the 12th largest gas producer.

### Cashing in on the upswing

Now that Brookfield has built Ember into a company with the scale to capture significant upside as prices improve, it is considering an IPO of the business. Driving that decision is the growing appetite of investors for energy IPOs and secondary offerings. In fact, that voracious appetite has Brookfield reportedly seeking a \$1 billion public market valuation for Ember.

One of the big winners, if Brookfield does list Ember for that value, is its recently spun-off **Brookfield Business Partners LP** ([TSX:BBU.UN](#))([NYSE:BBU](#)), which holds Brookfield's direct stake in Ember. As a result, Brookfield investors that held on to their post-spin units could see a spike in the value of those units if the Ember IPO does well.

Meanwhile, any capital it receives via either the IPO or future secondary sales could be used to create future value for investors as the company repeats its investing approach on new industry targets.

### Investor takeaway

Brookfield's contrarian bet on natural gas appears to be poised to start paying off. That winning bet was made possible by the company's focus on buying when others are selling and then selling when they are back in buying mode. It is an approach that could lead to an early win for investors that held on to Brookfield's latest spin-off with the Ember IPO potentially unlocking significant value for that entity.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

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

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