



Brookfield Asset Management Inc. Investors: What to Do With the Latest Spin-Off

Description

Brookfield Asset Management Inc. (TSX:BAM.A)([NYSE:BAM](#)) is one of the world's largest asset managers with over \$250 billion in assets under management. The company purchases real assets in four industries identified as offering attractive, steady returns for investors: real estate, infrastructure, renewable energy, and private equity.

Brookfield has structured the business in a unique way, spinning off companies for each of the four industries above. Since 2009, Brookfield has spun off four companies which are now publicly traded: **Brookfield Property Partners LP**, **Brookfield Infrastructure Partners LP**, **Brookfield Renewable Partners LP**, and **Brookfield Business Partners LP** ([TSX:BBU.UN](#))([NYSE:BBU](#)).

All four subsidiary companies have gone on to thrive and give investors great returns. Will Brookfield's latest spin-off be as successful?

On June 22, investors in Brookfield will receive one share of **Trisura Group Ltd.** ([TSX:TSU](#)) for every 170 shares of Brookfield they own. Trisura is a property and casualty insurance holding company with operations in reinsurance, corporate insurance, risk solutions, and surety. The biggest difference between this spin-off and the last four is that Brookfield is spinning off 100% ownership and will not own any Trisura going forward. Management decided that these insurance operations no longer fit within Brookfield's investment strategy.

Trisura

On its own, does Trisura look like a good investment?

In 2016, the group of companies that are combining to make Trisura earned \$0.51 per share. Trading of Trisura shares is expected to start at \$25, which would put shares at 49 times earnings. But in 2015, these companies earned \$4.30 per share. This just goes to show how volatile insurance niches are. The volatility makes it hard to determine if shares will be fairly valued when trading begins.

Premiums written have increased in the past three years, showing organic growth. Trisura is also expanding into the U.S. after the spin-off is complete. The prospects of an investment in Trisura

depend heavily on how the expansion into the U.S. fares. Two seats on the board of directors and the CFO will be appointed by Brookfield, and with Brookfield's track record, I'm confident that Trisura will be able to grow the business and successfully grow in the U.S.

I believe that, fundamentally, Trisura will be a good investment.

The spin-off

Fortunately, we have a recent example of how Brookfield spinoffs behave once they start trading. Look back to last June: Brookfield Business Partners started trading at \$32.50. Within a month, it had dropped to under \$24. But shares have climbed back up to \$35.20. Brookfield Business Partners dropped for reasons unrelated to the company, so shares were very likely to rebound.

I think the immediate drop in price will be worse in this case, though, because 100% of shares will be spun off, so investors will feel that Brookfield doesn't have confidence in the business, no matter what the press releases say.

It is a well-known phenomenon that shares of a spin-off will drop when they start trading. Few investors purchased Brookfield shares because of the insurance operations, so they will have little interest in holding the insurance companies directly. Many investors will also sell their shares simply because they do not want to have one or two shares of a new company in their portfolios.

To receive 10 shares of Trisura, an investor would need to have over \$85,000 invested in Brookfield, which not many small investors do. Most mutual funds and index funds will be obligated to sell because Trisura doesn't fit their investment instructions. All of these factors and more will lead to Trisura trading down significantly.

What to do?

If you do not like the idea of investing in this insurance company, you should immediately sell your shares. You are unlikely to receive full value for them, but it will be simpler to sell the few shares you receive and be done with them.

But if you believe, like I do, that Trisura is an interesting company, you should wait for the drop and then buy more. The market is going to overreact, and that will present an opportunity to buy a growing, profitable insurance company for a big discount.

CATEGORY

1. Investing

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2. NYSE:BN (Brookfield Corporation)
3. TSX:BBU.UN (Brookfield Business Partners)
4. TSX:BN (Brookfield)

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Date

2025/08/25

Date Created

2017/06/09

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