Has This Asset Manager Gotten Ahead of Itself?

Description

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) may not be a household name, but this company has been operating behind the scenes effectively for over 100 years. The company was founded in 1899 as a builder and operator of electricity and transport infrastructure.

Brookfield owns and/or operates iconic buildings in many major cities in North America. Brookfield runs 400 million square feet of commercial space, including Brookfield Place buildings in Toronto and New York City. In addition to real estate, Brookfield operates in infrastructure, renewable energy, and equity spaces.

Brookfield is not a one-trick pony. Its track record is impressive. Investing $10,000 five years ago would yield $22,000 in total earnings today.

Two other investment and asset management companies are **IGM Financial Inc.** (TSX:IGM), a $10 billion company, and **CI Financial Corp.** (TSX:CIX), a $7 billion company. These companies don't hold hard assets in the same way that Brookfield tends to, but there is breadth in these asset businesses.

IGM Financial Inc.

IGM is made up of three investments companies, including a firm called Mackenzie Investments that advertises mutual funds and exchange-traded funds (ETFs) to clients. Overall, IGM has a return on equity in the mid-teens, which is solid. The dividend yield of 5.28% is solid, but the dividend-payout ratio has been creeping up at a slightly faster rate than the actual dividend increases, which could be problematic.

CI Financial Corp.

CIX went public in 1994. Like IGM and Brookfield, CIX has subsidiaries. One of which is a company called First Asset that offers investment products. First Asset has 55 ETFs that are bought and solid on the TSX with what appears to be generally low liquidity.

CIX seems to be mostly a dividend play since growth numbers are flat. But CIX reported increased free cash flow in 2017 thus far and directed additional funds to dividend payments. The current dividend is now 5.21%; it's attractive, but the yield has mostly dropped over the past 10 years, during which time the stock price has also not budged.

Brookfield stands out

The 10-year revenue growth for Brookfield has been 10.86% per year, massively larger than either IGM or CIX (0.51% and 1.64% per year). This explains the high forward price-to-earnings (fwd P/E) multiple—a whopping 38.70. The historical fwd P/E for Brookfield is 34—again almost twice the TSX average. IGM and CIX have much more favourable multiples (fwd P/E: 12.60 and 12.40). But IGM and CIX both have a 10-year track record of negative earnings per share, while Brookfield has increased earnings per share by 6.4% annual since 2008.

The BAM.A stock price has rolled over in recent months, dropping about 7% from a high back of $52.55 per share in May 2017. For those looking to dip a toe into the Brookfield ocean, a buying opportunity may be presenting itself.

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Date
2025/09/09
Date Created
2017/08/03
Author
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