5 Things to Love About Brookfield Asset Management Inc.'s 2nd Quarter

Description

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) delivered strong second-quarter earnings August 10. Yet Brookfield's stock continues to roll backward, caught up in an overall market correction which has seen the TSX Composite Index decline by almost 3% in the last 90 days.

Is Brookfield hitting the buy zone? Five points from its Q2 2017 earnings reports suggest it is.

Assets under management

Brookfield had US$257.5 million in assets under management as of June 30 — 5.8% higher than in the same 12 months a year earlier. While that's lower than its 9% compound annual growth over the past five years, it's still more than respectable given the size of assets.

Funds from operations

In the second quarter, it saw funds from operations go over $1 billion for the first time since 2013. A big chunk of the gains came from the US$2.1 billion sale of a New York City office building. Brookfield's interest in the building netted the company US$464 million in realized gains. Excluding the sale, funds from operations increased 9% to US$562 million.

"The market for selling mature property and infrastructure assets continues to be very positive, and we are using this environment to monetize assets and recycle capital where it makes sense," wrote CEO Bruce Flatt in his second-quarter letter to shareholders. "Recently, we sold a New York office property for $2.21 billion, a London office building for £410 million, and various other assets at attractive prices."

That's the beauty of Flatt's strategy. The company buys assets that are out of favour, holds them until they're in favour, and then sells them for a significant profit. It's the most patient of capital.

Deployment of capital

In the second quarter, Brookfield completed acquisitions totaling US$9 billion, including the US$5 billion purchase of a regulated natural gas transmission company in Brazil. Also, its private equity business closed purchases of a water treatment and collection company in Brazil and the leading supplier of gasoline and other road fuels in the U.K.

Recently, Brookfield, in partnership with **Great Canadian Gaming Corp.**, acquired the gaming assets of three Ontario casinos and the rights to operate them for the next 22 years. That's going to provide significant returns for the company.

Spin-offs doing well

Over the last 12 months, Brookfield's listed issuers have grown their market caps by US$11 billion. Not only does Brookfield benefit from this capital appreciation, but it's received more than US$1.2 billion in dividends from them.

Also, and possibly more important, is the fact Brookfield got US$515 million in annualized base fees from these businesses over the past 12 months in its role as the asset manager — an increase of 21% year over year. As the businesses grow, it will get more.

On top of that, it got US$203 million in performance fees from the listed issuers — almost double the year before.

As an asset manager, fees are the name of the game.

North American residential real estate

Hidden among all of its significant assets is an investment that flies under the radar of most investors, but it probably won't after Flatt's Q2 shareholder letter.

According to Flatt, Brookfield's North American lot business owns approximately 100,000 lots in 12 supply-constrained markets, including Toronto. It's one of the five largest owners of residential lots in North America.

Valued on the books at US$1.5 billion but worth US$8 billion, it will sell those lots over the next 15 years. Currently, it generates US$2 billion in revenue and more than US$400 million in cash flow annually.

The lot business is the company's most underrated asset.

At under $45, it's a steal

As I mentioned in the beginning, Brookfield's stock's been rolling backward in recent months. I think it's a buy at $48 regardless of any valuation concerns. You pay up for quality.

However, if it drops below $45, which could very well happen if the situation in North Korea gets worse, you have got to be buying its stock with both barrels.

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