Why You Want to Own This 1.6% Dividend Yield

Description

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) CEO Bruce Flatt appeared on the cover of *Forbes* magazine's May 16, 2017, issue. A fly-under-the-radar kind of guy, he decided that Brookfield needed to tell its story to more people on Wall Street and beyond.

It's a great idea in concept. Only no one seems to have read the article, because in the 11 months since it hit the newsstands, Brookfield's stock has gone sideways. It was $52 last May; today, it's $50. Year to date, its stock is down almost 10%. Brookfield hasn't had a calendar year in negative territory since 2011.

Nothing has changed in Brookfield's investment philosophy. It likes to buy undervalued assets, give them the nourishment and care to grow and thrive into overvalued assets, and then they're sold, repeating the process over and over again, rewarding long-time investors for their patience.

As Fool.ca contributor Kay Ng recently said, "Brookfield is a spectacular opportunity for investors to gain exposure to real assets that are impossible to access by the ordinary Joe."

I consider Brookfield one of the five best stocks on the TSX, because as I said last October, "[Brookfield] wins more than it loses."

At under $50, Brookfield is cheap

If you go back three years, you'll see that Brookfield was trading around $47, less than $3 from its current price. That tells me one of two things: either BAM.A stock was wildly overvalued three years ago, or it's undervalued today.

So, which is it? To figure that out, let's first go back to Brookfield's 2014 annual report.

As of December 31, 2014, Brookfield had total assets under management of US$204 billion with 66% of those assets in the U.S. On its balance sheet it had US$129.5 billion in assets, a book value per share of US$81.23, and funds from operations of US$2.2 billion.

As of December 31, 2017, Brookfield had total assets under management of US$283 billion with 52% of those assets in the U.S. On its balance sheet it had US$192.7 billion in assets, a book value per share of US$79.40, and funds from operations of US$3.8 billion.

The first thing I notice is that its book value per share is US$1.83 less in 2017 than it was in 2014. However, in 2014, it had approximately 35% fewer shares outstanding. The company's book value in pure dollars has grown 50% over the past three years. Its assets under management have grown by 39%, and balance sheet assets have grown by 48% over the same three-year period.

In 2017, Brookfield sold $12 billion in assets, which it will now redeploy into investments. Those assets were carried on the books for $11 billion, so it managed to generate an additional billion dollars in gains in the process.

Brookfield might appear to be fairly valued at the moment, but situations like the one above suggest that its assets today are worth more than they are valued on its balance sheet.

Warren Buffett always says it's better to pay a fair price for a great company than a great price for a fair company.

Brookfield is a great company. At below $50, I see it as cheap. Below $45, it's a steal.

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