



This Stock Acts Like a Mutual Fund, a Smart Landlord, & Builds Wealth in Your RRSP

Description

Brookfield Asset Management Inc. (TSX:BAM.A)([NYSE:BAM](#)) is a good stock for new and/or seasoned investors. It provides Canadian investors exposure to U.S. and global markets, but shares can be bought on the TSX, mitigating currency concerns.

Brookfield is a suitable core RRSP holding. Last month, [Demetris Afxentiou](#) made a compelling Brookfield case, citing the diverse business in the form of four subsidiary companies, spanning different sectors. [Matt Smith](#) is also bullish.

I think of Brookfield as its own mutual fund or pension fund, not unlike huge private funds like Ontario Teachers' Pension Plan (OTPP). The OTPP has private ownership of iconic equities, like Toronto Eaton Centre. The mixture of financial and fixed-income assets smooths market volatility. More on this below.

Brookfield is unlike a mutual fund, however, because it has skin in the game for its assets. How so? Brookfield builds a building, it secures tenants (commercial or residential), and then turns the table around and manages the building operations at the expense of its tenants. Brookfield has cornered a piece of the market with this vertical integration approach.

Yet Brookfield is hardly a household name. Have you even seen the logo? It's plain text "Brookfield" in blue font. Yawn! My unsubstantiated theory is Brookfield likes to fly under the radar.

Here are the things to like about Brookfield now:

Value

EV/EBITDA is the enterprise value of a company divided by its earnings before interest, taxes, depreciation, and amortization. I like this metric because — unlike the price-to-earnings ratio (P/E) — it inherently contrasts earnings and debt in one number. Growing earnings while taking on more debt could produce a favourable looking P/E, but an unattractive EV/EBITDA. The five-year range for Brookfield is nine to 18, and the current level is now on the low end at 12.8.

Another favourable fundamental is Brookfield's price-to-sales (P/S) ratio. Sales have grown in the last 12 months, as the company sold off mature assets, as reported in the *Financial Post* in February, to the tune of US\$12 billion in asset sales from among the \$285 billion under management. This helps to explain why the current P/S has been driven down to under one, at 0.85, meaning the total sales per share exceeds the current share price. For a strong company, under no obvious stress, the five-year low for P/S is a strong value sign.

Based on P/E and P/S numbers, and according to a ychart source, Brookfield is ~28% undervalued.

Growth

Because of its \$50 billion market cap, Brookfield can bankroll ambitious projects. Look to the hottest locations globally, and you'll find a Brookfield footprint. The Manhattan West project in New York City is an ongoing Brookfield construction effort of two buildings that creates four million square feet of office space and 844 apartments, with expected completion in 2019. By owning shares of Brookfield now, you could be part of this initiative and own a small piece of Manhattan!

Risks

Despite my bullish sentiment, it is important to be aware of risks. First, Brookfield is not immune to recessions nor real estate crunches. Indeed, Brookfield dropped heavily during the 2008 financial crisis. Second, a rising-rate environment will make for tougher business, because the long-term debt is high for this line of business and high relative to the company's net income.

Bottom line

This stock is market beating, giving it a positive alpha over long stretches. Brookfield has, on average, outperformed the S&P 500 index over 10 years by 3.8% per year. Hold this stock and be prepared for positive investment gains.

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