It’s Time to Get Carried Away With Brookfield Asset Management Inc. (TSX:BAM.A)

Description

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) recently threw Donald Trump’s son-in-law, Jared Kushner a lifeline, acquiring the 99-year lease on 666 Fifth Avenue, the building Kushner’s family paid US$1.8 billion for in 2007, and have struggled to maintain the interest payments on it ever since.

To lend Kushner a helping hand, Brookfield Properties will own and operate the building, putting US$600 million into renovating it, agreeing to pay the rent on the building for the entire 99 years upfront to lessen the Kushner Companies’ existing debt burdens.

I’m sure Brookfield negotiated a sweet price on the building’s lease in exchange for the lifeline, as Brookfield’s an opportunistic investor like very few others; it will surely do well on its investment in five to seven years from now.

Just one of many reasons to own Brookfield

The Kushner deal is only one illustration of why Brookfield Asset Management is considered one of the best asset managers in the world.

Whether you own it in an RRSP, TFSA, or in a taxable account, you can’t go wrong, because, in my opinion, it’s one of the five best stocks on the TSX.

If you don’t own Brookfield’s stock, there’s a little-discussed reason for buying, which I will get into shortly. If you do, you might not be aware of this compelling reason to be a long-term Brookfield shareholder.

Getting carried away with Brookfield

Fool contributor Kay Ng recently alluded to the company’s carried interest, the fees it receives on top of the annual management fees it charges its limited partners for services provided including asset management.

Generally, these fees are vested over three to four years to keep asset managers incentivized about the long-term value and profitability of a particular investment.

Joshua Varghese, portfolio manager at Signature Global Asset Management, CI Investments, recently said this about the company’s carried interest: “The amount of unrealized carried interest fees that they’re generating but have yet to be paid is staggering and will be an ongoing good source of cash.”

If you look at Brookfield's Q2 2018 report, you'll find some outstanding numbers regarding carried interest.

For example, it realized US$93 million in net carried interest over the trailing 12 months ended June 30 with another US$1.0 billion in unrealized net carried interest and a target of US$2.3 billion in realized carried interest annually by 2027.

So, between now and 2027, Brookfield intends to realize cumulative carried interest (100% profit less associated cost and tax) of US$8 billion, which doesn't include management fees, gains on asset sales, etc.

Currently, Brookfield is generating US$2 billion in annual free cash flow; in four years it expects to grow that to US$3.7 billion, an annualized growth rate of 16.6%. Extrapolate that growth over the five years after that, and it'll be generating $8 billion in annual free cash flow.

On a per-share basis based on 980 million shares outstanding, I get free cash flow per share of $8.16, more than double the amount today.

The bottom line on Brookfield stock

As Ng said in her piece on August 13, you ought to buy some Brookfield now holding cash in reserve for future purchases below $50.

This is one stock you should get carried away with.

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