Why Brookfield Asset Management (TSX:BAM.A) Outperformed in 2018

Description

2018 has been a wild year for stocks. Between cannabis euphoria, tech stock volatility, and the Dow briefly wiping out its gains for the year, there's been a lot to keep up with. But through it all, alas, the **S&P/TSX Composite Index** has mainly performed poorly and is down about 6% year-to-date as of this writing.

But that doesn't mean there haven't been winners in this sluggish market. Certain tech and clothing stocks are up big. Railway stocks are doing well and utilities have weathered the fall doldrums better than most.

One under-the-radar TSX stock that has also done well is **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM), which is up about 8% year-to-date. As an asset management company, it has diverse holdings in real estate, energy and infrastructure. One clue to its success may lie in its huge hydroelectric portfolio; this puts part of its business in the utilities category, and utilities do well in down markets. But that fact alone can't explain Brookfield's strong showing, as the company is extremely diversified and doesn't fit neatly into one category.

To understand why the stock did well in 2018, we need to look into the financials. We can start with revenue growth.

Double-digit revenue growth

Brookfield's revenues were up 16.6% in Q3, driven by strong growth in fees and target carry. This growth reflects the company's success in finding distressed assets to acquire and turn around until they generate value. It's clear that Brookfield is growing revenues from these operations at a steady pace. But on the net income front, the results are more mixed.

Earnings up despite Q3 miss

In Q3, Brookfield's consolidated net income came in at $941 million, down from $992 million in Q3 2017, representing a decline of about 5%; however, if we expand the timeframe to 12 months, we get a different picture. Over 12 months, Brookfield's net income rose from $2.5 billion to $6.5 billion. The decline in Q3 was attributed to low appraisal gains for the quarter, which were more than offset by the high appraisal gains for the year as a whole.

A dividend grower

Last but not least, Brookfield Asset Management has a solid history of raising its dividend. Although the yield is low right now, at about 1.36%, it may increase in the future. The current payout of $0.15 per share is up from $0.14 per share in November of last year, a gain of about 7%. In May of 2014, the company paid a dividend of $0.1067, although it was at $0.13 in November of 2013, so the dividend track record is a little shaky. Nevertheless, over the long run, it's definitely growing.

Bottom line

Brookfield Asset Management is an unconventional company with a very long history. Its holdings are extremely diversified, which make it hard to categorize as being part of any particular sector, but its focus on renewable energy may help explain why it did well this year. The company's earnings have also grown a lot over the past 12 months, although a decline in the most recent quarter is a concern. All-in-all, Brookfield Asset Management has delivered superior returns to its investors over the past decade, and I see no reason to believe they won't keep it up.

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