Transformative Acquisition Makes This Company a Top Dividend-Growth Stock

Description

Transformative acquisitions can either propel a company to new heights or be an albatross that's difficult to get out from under it. **AltaGas's** (TSX:ALA) acquisition of WGL is a great example of the latter, while **CGI Group's** (TSX:GIB.A)(NYSE:GIB) acquisition of Logica back in 2012 is an example of the former. While CGI has been one of the top-performing companies on the TSX, AltaGas has been weighed down by high debt loads and is trading at a 50% discount to where it was only two years ago.

Whenever deals are announced, the acquiring companies tend to promote the expected synergies. If the company successfully executes the integration, then synergies are realized and the deal becomes accretive to the business. On the flip side, if the company fails to execute, then it can quickly spiral out of control. This can lead to poor financial performance and, at worst, write-offs.

Last week, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) took a majority stake in **Oaktree Capital** (NYSE:OAD). Will the deal propel the company to new heights?

Acquisition details

On Wednesday, Brookfield agreed to pay US$49 per share for Oaktree Capital, representing a 12% premium over the previous day's close. The deal will be financed through an equal split of cash and Brookfield shares.

What makes this deal unique is that it is not an outright purchase, and the company is not expected to be integrated into Brookfield's current operations. At least not yet.

Howard Marks and Bruce Karsh, co-chairmen of Oaktree, along with other members of Oaktree Capital Group will still own 38% of the company. The other key aspect: they retain operational control of Oaktree. Although the two companies will leverage its respective strengths, Oaktree will remain an independent entity.

As per the terms of the deal, Brookfield cannot make a bid for 100% ownership until 2029.

The deal is expected to be immediately accretive to Brookfield on a per-share basis. This is before any benefits from potential synergies down the road.

A top dividend stock

The deal adds approximately $120 billion to the company's assets under management — an increase of approximately 35%. The accretive nature of the deal will be a positive for the company's dividend. Oaktree investors currently enjoy a hefty 6% yield, and it is expected the deal will be highly accretive to Brookfield's cash flow. This sets up the company for healthy dividend growth well into the future.

Brookfield is a Canadian Dividend Aristocrat with a seven-year dividend-growth streak. It also has a decent five-year annual dividend-growth rate around 8%. At minimum, the deal should allow the company to maintain this stable dividend-growth rate well into the future. If anything, I can see the company's dividend-growth rate rising into the double digits.

Before the deal, Brookfield expected to grow fee-related revenue and cash flow by 18% annually through 2023. Add in Oaktree's assets, and the company will most certainly exceed this target in a much tighter time frame.

Foolish takeaway

Brookfield is positioned to become the second-largest private equity asset manager in the world. Management is widely regarded as the best in class, and the company has un-paralleled brand recognition. This provides it with a competitive advantage that is not easily quantifiable. The deal further solidifies the company as a top dividend growth stock. It is a great foundational stock for your TFSA or RRSP portfolios.

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