Better Buy: Brookfield (TSX:BAM.A) vs. ONEX (TSX:ONEX)

Description

Canada's private equity space is probably its most interesting and underrated sector at the moment. Billions of dollars have been pouring into startups, real estate, and corporate buyouts in recent years, which has created immense value for Canada's largest asset managers.

Perhaps the most well-known beneficiary of this recent surge in private equity has been **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM). Lesser known rival **Onex** (TSX:ONEX) has been making headlines this year as well.

Both companies manage investments for institutions and high net-worth investors from across the globe. The key difference between them is size. With US$39 billion in assets under management and a market capitalization of $7.7 billion, Onex is nearly precisely one-tenth the size of Brookfield.

However, size is only part of the story. For growth-seeking investors curious about the private equity sector, it's worth taking a closer look at the underlying fundamentals and relative valuations of both companies to figure out which one is a better investment opportunity.

Brookfield

Brookfield's investment performance and business model is already well understood in investment circles. The company uses external capital raised for each of its subsidiaries in combination with internal capital to make investments.

Over the past five years, the company's assets under management have grown at an annualized rate of 16%. Meanwhile, the stock has more than doubled over the same period.

Occasionally, the company makes major acquisitions to fuel its long-term growth trajectory. This year alone, it paid billions for Oaktree Capital Group and mortgage insurance company Genworth Financial, further entrenching its financial services.

Confidence in Brookfield's investment prowess has pushed the stock to an all-time high. It currently trades at 25 times annual earnings per share and 2.67 times book value per share. In other words, it seems priced to perfection.

Onex

By contrast, Onex seems to have slipped under the mainstream investor's radar, even though it's been around since the 1980s.

The company reported a 27% gross internal rate of return (IRR) on private equity investments since inception. That excellent performance was reflected in the company's stock price, which sextupled between the end of the great financial crisis in 2008 and 2017.

However, since 2017 the stock has been gradually losing value. It's down roughly 27% from its all-time-high. A dip in performance and erosion of assets under management seems to be the underlying cause. For 2018, the company reported a net loss of $796 million on account of client withdrawals.

"We were … disappointed with the performance of our private equity portfolio during the year," said Gerry Schwartz, chairman and CEO.

However, the downturn has made Onex much more attractive. The company's stock trades at just 14% premium to book value per share and roughly twice annual earnings.

The complexity of Onex's business model and the growing concern about private equity valuations could be the reason why the stock is so beaten down. Unlike Brookfield, Onex isn't a steady income stock with a hefty dividend. But for long-term investors looking for an undervalued opportunity in the asset management sector, Onex seems to beat Brookfield.

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