Own This Compounding Machine and Earn +15% Returns

Description

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is a leading global alternative asset manager and one of the largest investors in real assets. The company's investment focus is on real estate, renewable power, infrastructure, and private equity assets. The company's objective is to generate attractive long-term risk-adjusted returns for the benefit of company clients and shareholders. Brookfield manages a range of public and private investment products and services for institutional and retail clients.

With the advent of the Federal Reserve's quantitative easing, the world today is flush with liquidity. Pension funds and institutional investors have plenty of cash that they need to invest. Brookfield manages their capital, earns asset management income, and invests capital alongside clients. The company has an exceptionally strong balance sheet, with over $30 billion of capital invested, primarily in the company's four listed partnerships. The company earns base management fees and performance-based income as an investor and capital allocator.

Brookfield invests at attractive valuations in value-oriented situations that create opportunities for superior valuation gains and cash flow returns. The company also monetizes assets opportunistically and works to increase the value of the assets within Brookfield operating businesses. The company does this by lending operational expertise, development capabilities, and effective financing.

The company is fairly valued with a price-to-earnings ratio of 15.19, a price-to-book ratio of 2.23, and market capitalization of $78 billion. Debt is on the higher side at Brookfield, as evidenced by a debt-to-equity ratio of 4.89, although much of the debt is at the subsidiary level, posing limited risk to the parent due to the non-recourse nature of leverage. The company has excellent performance metrics with an operating margin of 14.84% and a return on equity of 11.19%.

The company has over $350 billion of assets under management and $138 billion in fee-bearingcapital. Brookfield raises private and public capital from the world's largest pension funds, sovereignwealth funds, and individuals and is focused on generating attractive investment returns in thefollowing industries: real estate, infrastructure, renewable power, and private equity. The companyengages in diverse strategies in closed-end and long-life vehicles to meet objectives.

In several markets, the company has an economic moat due to strong capabilities as an owner-operator, access to large scale capital, and a global reach. The company has also invested capital in other direct investments and wholly owned subsidiaries. This supports capital raising, as it aligns Brookfield's interests with interests of the client.

The company reported net income of $7.5 billion last year. Funds from operations increased 16% year over year. Brookfield raised a phenomenal $40 billion of capital during the year, invested or committed $35 billion, and sold $14 billion of mature assets. The company currently has $35 billion of deployable capital and has ramped up share repurchases, indicating potential undervaluation of Brookfield's stock. In 2018, $600 million of free cash flow was invested to repurchase Brookfield shares.

The company's goal is to generate 12-15% compound returns over the long term. The company looks poised to achieve this ambitious goal under the leadership of Bruce Flatt, arguably Canada's best CEO. This company could very well be a $1 trillion stock someday.

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