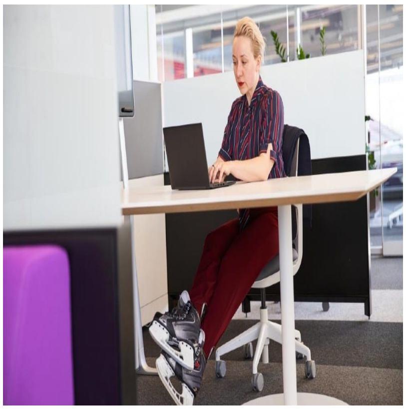

Market Crash: Is Brookfield (TSX:BAM.A) Starting to Look Attractive?

Description

It's a great time to buy Canadian, especially Canadian corporations with a stellar track record like **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM).

For much of the past decade, some of the top stocks on the Canadian stock market have been hovering far above their intrinsic value. Reliably great companies were rare, so investors overbought them, which pushed their valuations to eye-watering heights. Now, however, things have changed.

The ongoing shutdown because of the coronavirus pandemic, has cut $1 trillion in shareholder wealth in less than a month. The market is spooked, which means brilliant companies like Brookfield Asset Management have seen their valuation plunge. Here's a closer look at the investment giant's prospects for the years ahead and its current valuation.

Brookfield Asset Management

There's a reason Brookfield Asset Management's stock tumbled 35% over the past month. The firm manages investments for institutional investors. These investors are more exposed to the market cycle than the average investor.

A decline in asset prices, sudden recession and liquidity crisis could push some pension funds and family offices to pull money out from Brookfield's funds.

A combination of redemptions and capital losses could mean the firm's assets under management (AUM) decline this year. At the end of 2019, these assets stood at $350 billion.

A decline in AUM also impacts the company's net income, as it makes a profit on management fees and performance bonuses. Investors who understand this have probably re-rated Brookfield Asset Management's stock based on future fundamentals.

The Upside

There are reasons to be optimistic about Brookfield. Much of the company's assets are concentrated in real assets such as real estate and renewable infrastructure. These tangible assets tend to retain their value even during a market downturn.

Brookfield Asset Management also has plenty of dry powder to take advantage of the current market crash and recession. At the end of 2019, the firm reported $65 billion in capital, which is ready to deploy now. It could add distressed assets, businesses on the verge of bankruptcy and foreclosed properties to bolster the company's portfolio.

Meanwhile, interest rates on borrowed capital are declining across the world. This means Brookfield Asset Management can borrow money cheaply to magnify their bets further in 2020 and beyond.

Valuation

Brookfield Asset Management generated $2 billion in fee-related earnings in 2019. I'm assuming there is no performance bonus this year due to the market decline and fee-related earnings may drop by 25%, which means the firm could earn $1.5 billion in 2020.

Multiplying that annual earnings estimate by 25 gives us a valuation of $37.5 billion. The company's current market capitalization is $64 billion. In other words, the stock still seems overvalued.

Bottom line

Despite the market crash, Brookfield Asset Management's stock seems overpriced and could have further to fall in 2020. This is especially true if private valuations for their properties are adjusted lower and institutional investors redeem their capital.

However, my estimates for the company's earnings and the valuation multiple I've used could be wrong. Even if my estimates for the earnings drop is too pessimistic, the stock is fairly valued at best.

Investors have much better opportunities at the moment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/26
Date Created
2020/03/22
Author
vraisinghani