



Brookfield (TSX:BAM.A) Is Buying This Dividend Stock: So Should You!

Description

After the 2020 pandemic crash, **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) continues to strategically deploy capital. In fact, Brookfield deployed over \$2 billion into public equity markets during the March market crash. Many of these investments were targeted at publicly traded, alternative-focused stocks. One notable example is Brookfield's strategic investment into **TransAlta**.

Brookfield extends its investment streak

Yesterday, Brookfield took another investment initiative public. **Superior Plus** ([TSX:SPB](#)) [announced](#) that Brookfield will invest US\$260 million into exchangeable preferred shares of the company.

This will give Brookfield an approximately 15% stake in Superior as well as a board position. Superior Plus has a large propane and liquid fuels distribution business that spans across Canada and the United States. It also has a specialty chemical business that is one of the largest manufacturers of sodium chlorate (used for pulp and paper, energy, agriculture, etc.) in the world.

Superior Plus has steadily been growing

Superior Plus crashed, along with many energy stocks, in March. This is despite demonstrating strong operational results for the past few years. In 2019, it grew revenues, gross profits, and adjusted EBITDA by 5%, 27%, and 40%, respectively. That's pretty good for a boring chemicals and fuel distribution business.

Part of the problem is, the business is very reliant on weather conditions. In the first quarter 2020, Superior Plus experienced a major decline in revenues due to unseasonably warm temperatures in the United States. As a consequence, it lowered its EBITDA guidance for the quarter. Its total debt-to-adjusted-EBITDA ratio projection was raised to 3.6 times to four times, and investors got spooked.

Brookfield's investment will give a notable boost to Superior

Plus

The Brookfield investment proves timely and beneficial for a number of reasons.

Firstly, it helps Superior Plus immediately reduce leverage and improve its balance sheet. After the investment, its EBITDA leverage ratio drops to a more comfortable 3.2 times, which is within its three times to 3.5 times target range.

Secondly, the investment will enable Superior Plus the financial capacity to continue expanding its distribution business in North America. The propane and chemical distribution industry is still highly segmented and ripe for consolidation. Valuations in the industry have become more attractive due to the pandemic crisis, and management is keen to take advantage of this opportunity.

In fact, it has targeted over 20 potential acquisitions, and there are at least six that look really attractive. Right now is a great time for Superior Plus to be opportunistic and expand. The Brookfield investment can help Superior Plus capitalize now.

Thirdly, Brookfield is one of the best at helping undervalued companies unlock long-term value. Time and time again, Brookfield has taken good, unappreciated businesses, and transformed them into resilient cash-flow machines. A position on the board, and potential opportunity for future investment (say, for a larger-scale acquisition) all bode positively for Superior Plus going forward.

Lastly, this transaction further secures Superior Plus's attractive 6.5% dividend and gives it potential to grow in the years to come. Accretive and synergistic acquisitions in 2020 could lead to a substantial boost to cash flows going forward. Presently, the dividend is already very safe with a free cash flow payout ratio of only around 65%. I think there is certainly room to grow the dividend if the 2020 growth initiatives take place.

The Foolish takeaway

This transaction really solidifies the investment thesis for Superior Plus. While propane distribution is not exactly an exciting business, Superior Plus could emerge from 2020 stronger, more stable, and [in a better position to grow than before](#). It pays a great safe, dividend and actually has some growth legs. That's pretty attractive, especially at these prices. Who knows? Perhaps Brookfield may like the business so much that it takes Superior Plus private (hopefully at an attractive premium). Regardless, this looks like a really great value play for a long-term, dividend-seeking investor.

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