Buying Cheap Names? Try This 1 Dividend Stock Instead

Description

The last few months have opened up a wealth of value opportunities for eagle-eyed investors. Every investment strategy has seen options opening up, from high-momentum tech stocks to deep discounts in banking and energy names. It's not only private investors that have seen opportunities in the market turbulence, though. Asset managers have been getting in on undervalued companies as well.

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is a world-class, cash-rich operation that has been in exactly the right position over the last few months to add to its roster of businesses. And it's been doing exactly that. Around $2 billion has been pumped into publicly traded companies over the last few months, adding to a stable of international businesses. Selling at twice book, it's not cheap, but it invests in value.

One such investment is **Superior Plus**. Brookfield is set to snap up a 15% stake in the propane supplier. The door will be left open for Brookfield to increase its stake in the future dependent on the market. Superior operates two main segments: Energy Distribution deals with propane and heating oil, while its Specialty Chemicals dovetails with the pulp and paper industry.

For defensive dividends, increase variation in a stock portfolio

Around $60 billion in capital is on hand for Brookfield to invest in further attractively valued businesses. From an investor's point of view, Brookfield is therefore a canny manager currently in value acquisitions mode. It's also a one-stop play for a variety of asset types: Brookfield Asset Management covers real estate, infrastructure, renewable energy, and private equity with just one name.

Snapping up beaten-down businesses is a smart way to play the current market, while broadening revenue streams and reducing asset portfolio risk through diversification. Going forward, stakeholders in this branch of the Brookfield family should be able to rest easy knowing that the company is actively strengthening its balance sheet by varying its sources of income across industries.

Buying asset managers vs. cheap assets

One way to play value opportunities in the market right now is to directly invest in asset managers with an eye for a bargain. By doing so, the individual investor can make a play for value without having to get too involved in fundamentals. Brookfield Asset Management absorbs the risk of cheap assets, making it a slightly pricey but strongly strategic buy.

Brookfield is defensive, diversified, and pays a small but well-covered dividend. While a 1.3% yield may not be the highest on the TSX, a 38% coverage ratio makes for assured payments while leaving plenty of room for dividend growth. These kinds of figures strengthen the thesis for buying into an asset manager rather than sifting through value assets oneself.

Its greatest selling points are that healthy dividend and a solid outlook: 93% projected total returns await the shareholder who sticks it out until 2025. Earnings are set to grow by 44% annually, while that payout ratio drops to around 21% in the next three years. In short, this is a strong name to buy for its moderate but well-covered yield and some impressive capital gains potential.

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