



Warning! The Right Time to Sell Brookfield Asset Management Stock?

Description

The recent positive development related to the COVID-19 vaccines has triggered a buying spree in the broader market. As a result, shares of many companies that suffered heavy losses earlier this year are on a path of a sharp recovery.

In this article, we'll take a look at one such stock that has risen sharply in November despite its dismal latest quarterly results.

Brookfield Asset Management's business

Brookfield Asset Management (TSX:BAM.A)([NYSE:BAM](#)) is a Toronto-based alternative asset management firm with total assets of about US\$327 billion, and it manages assets of nearly US\$575 billion.

Apart from power generation projects and private equity, the company also focuses on real estate and infrastructure.

Among these segments, private equity services and real estate make up most of its total revenue. In 2019, 64% of its revenue came from private equity, while the real estate segment accounted for the other 15%.

Financial challenges

The existing trend in Brookfield Asset Management's quarterly earnings is negative. The company has missed Wall Street analysts' estimates by a wide margin in all the quarters of 2020 so far.

In the first quarter, BAM reported an adjusted net loss of US\$0.20 against an expectation of US\$0.42 profit. In the same quarter of the previous year, the company reported adjusted net earnings of US\$0.39 per share.

Its losses even widened in the second quarter to US\$0.43 per share — missing analysts' estimates of US\$0.37 per share.

The COVID-19 related restrictions earlier this year made Brookfield Asset Management's many segments badly suffer — especially hospitality and retail businesses.

Weakness continued in the latest quarter

In the third quarter, the trend in BAM's financials improved a bit as it reported earnings of US\$0.10 per share. With this, it made a comeback to profitability after reporting net losses in a previous couple of quarters.

However, its Q3 earnings were still 84% down on a year-over-year (YoY) basis and significantly worse than Wall Street's expectations. Analysts were expecting the company to report earnings of US\$0.49 per share in the third quarter.

What to expect next

Currently, Brookfield Asset Management is continuing to focus on expansion strategy and acquisitions. The company's management at the moment is eyeing the opportunities — related to airports and other transport areas — that may emerge in the next 12 months. These measures should speed up the recovery process in the company's [infrastructure](#) business.

Why I won't buy it right now

For its poor performance in the third quarter, the management [blamed](#) "some lagging effects of the shutdown" and expect "fourth quarter and 2021 to return to close to normal levels."

First, I find it disappointing how the shutdown's lagging effects completely devastated its third-quarter performance. Second, if these lagging effects are so devastating, how would they suddenly disappear in the fourth quarter to bring the income to normal levels?

This is the reason why I wouldn't want to buy its stock until I see a consistent recovery in its financials for at least a couple of quarters. The market has many other better opportunities at the moment. So, I would rather invest my hard-earned money elsewhere.

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