



VALUE ALERT: This Acquisition Signals More Value-Related Acquisitions on the Horizon

Description

The decision of **Brookfield Asset Management** ([TSX:BAM](#))([NYSE:BAM](#)) to acquire **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY) has been welcome news for shareholders. As I've written about a few times in the past, I saw [this acquisition](#) as an eventuality just a few months ago. Here are some details of the deal for investors interested in what went down.

Deal structure

Brookfield Asset Management and a group of investors offered US\$16.50 per share to buy out the subsidiary. This valuation was a 14% premium to the level shares traded at prior to the announcement, reflecting the higher value this group has placed on the company's cash flows over and above what the market was willing to pay. As a result of this deal, Brookfield Asset Management would acquire the 38% equity in this subsidiary it had not previously owned.

Shares of Brookfield Property Partners are now trading higher than the offer price made by the parent company. This could signal that the market expects the offer to be raised in the near-term. Whether or not this materializes remains to be seen. However, it is worth pondering what price BAM would be willing to pay to take full control of this real estate subsidiary.

Why it's a good deal for both parties

Investors in Brookfield Property Partners have had a rough go of it during the 2020 market correction. This limited partner's share price remains around 20% below its pre-pandemic highs. Concerns around the potential for long-term weakness in office and retail real estate is warranted. Thus, investors have taken exception to BPY's high levels of exposure to these two segments, with significant capital outflows expected to continue. Accordingly, this share price bump is a nice New Year's present to patient BPY investors.

I think some pessimism is warranted for BPY's assets. However, there is a lot to like about the price

these assets are trading at relative to historical levels. BAM has been able to take advantage of weak market sentiment to bring these cash flows entirely in-house. Investors in BAM ought to like this move.

The strategy of spinning off a company at high valuations (when the stock market is running hot) and acquiring companies when the mood is overly bearish, is a prudent one. As a long-term capital manager, BAM has a proven track record of timing the market well. Time will tell how this deal turns out, but it does look like BAM is certainly not overpaying right now.

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3. TSX:BPY.UN (Brookfield Property Partners)

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chrismacdonald

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