



## Warren Buffett: 1 TSX Stock to Buy and Own Forever!

### Description

If possible, Warren Buffett would love to own wonderful businesses forever. They don't have to pay a nice dividend either, although it would be ideal. Just look at Buffett's investment in **Snowflake** last year. The cloud-based data platform provides no dividend but plenty of growth potential.

**Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) offers the best of both worlds — growth potential and a small but growing dividend. It is a wonderful business that has created outperforming shareholder returns over decades.

### Why you can buy and own this TSX stock forever

BAM's businesses work well through economic cycles. Only 10-20% of its businesses were impacted by the economic shutdowns last year.

The overall company generates tonnes of free cash flow from its asset management business and cash distributions from significant stakes in its listed affiliates. Additionally, even during recessions, BAM ensures it has ample liquidity to take advantage of bargains in quality assets.

Since 2002, the global alternative asset manager has expanded its assets under management (AUM) by 27 times. Over the years, it has diversified into operations in infrastructure, renewable, real estate, and private equity.

In 2019, BAM formed a strategic partnership with Oaktree, which originally had about \$120 billion of AUM. BAM made a significant investment of 62% in Oaktree, which was an alternative asset manager that specialized in credit assets, including distressed debt. Oaktree shines in recessions, including the one last year.

Oaktree is a great fit to BAM. Importantly, Oaktree's original professional management and investment teams continue to operate the company. BAM management acquired Oaktree with the intention of adding value from the combined franchise in the areas of product development and product distribution, which they have been doing.

## Why buy the growth stock now?

Brookfield Asset Management has begun monetizing earlier-stage funds. As a result, it'll be returning more meaningful capital to its investors over the next five years than in the last five. This will translate to even more capital for reinvestment, greater fee-bearing capital, and more capital returned to investors, including through a solidly growing dividend.

In late 2020, BAM estimated that the growth stock should be worth about US\$53 per share based on its annualized fee-related earnings and carried interest. Currently, at under US\$40 per share, it trades at a discount of about 25%.

Management further projects that the shares should be worth US\$110 per share in five years. That'd imply a compound annual growth rate of just below 16% from US\$53. If the shares were to continue trading at a discount of 25%, then BAM shares have a price target of approximately US\$82 by 2025.

This equates to upside potential of almost 20% per year by the end of the period. On top of that, shareholders will also get an increasing dividend, which currently yields 1.2%. BAM last increased its dividend by 12.5% in February 2020. So, don't be surprised if it makes another +10% dividend increase soon.

## Longer-term growth

On top of its existing strategies, management has new longer-term growth strategies that will start making a bigger impact in the latter half of the decade. It plans to start secondary funds, impact funds, technology funds, and an insurance business. In fact, BAM will be spinning out its reinsurance business in the first half of this year. Similar to its other listed affiliates, by having the business listed as a separate entity, BAM would have greater flexibility in accessing capital from the debt or equity markets as needed.

## The Foolish takeaway

Brookfield Asset Management is a wonderful business with a track record of growth that Warren Buffett would approve. Investors keep coming back for more, as BAM is an exceptional manager and operator of long-lived, quality assets. The addition of Oaktree makes BAM even more formidable.

Furthermore, the current period of low interest rates only make BAM's cash-cow assets more valuable. Alternative assets used to be 5% of investors' portfolios about 20 years ago. Now, they have grown to about 25%. BAM estimates that by 2030, the percentage of the attractive asset class can skyrocket to 60% of investors' portfolios, as investors seek greater, durable returns. It's a no-brainer to buy BAM stock and own forever as a core holding!

## CATEGORY

1. Dividend Stocks
2. Investing
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1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

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