



This Canadian Growth Stock Just Raised Its Dividend by 8%

Description

Global alternative asset manager **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) has been a superb long-term investment for its shareholders. Its 10-year annualized returns are approximately 15% per year on the **TSX**, essentially turning a \$10,000 investment into about \$41,000.

The company targets 12-15% long-term returns on its investments. The stock trades at a discount today. This means that annualized returns of more than 16% per year is possible for [an investment over the next five years](#).

The growth stock reported record 2020 financial results last week and raised its dividend by 8%.

Investors can tell an incredible path for wealth creation is ahead from the positive tone by CEO Bruce Flatt, "We ended the year with our best quarter ever, reflecting the continued growth of our asset management franchise and the resiliency of our underlying businesses... [W]e expect 2021 to also be strong as we enter another important phase for our business."

The Canadian growth stock's 2020 results

The company reported a net income increase of 11% to US\$1.8 billion in Q4 2020 versus Q4 2019. But its 2020 net income declined 87% to US\$707 million versus 2019.

Brookfield Asset Management's strong results were partially offset by non-cash mark-to-market valuation losses that should recover over time as markets hit by economic shutdowns normalize.

This example demonstrates net income is not a reflective measure of BAM's business performance. Even in a normal year, BAM would still have meaningful non-cash depreciation and amortization expenses that reduce net income.

The funds from operations (FFO) is a much better measure of the growth stock's business performance. BAM increased FFO by 74% to US\$2.1 billion in Q4 and 24% to US\$5.2 billion in 2020. On a per-unit basis, BAM increased its 2020 FFO by 21% to US\$3.27. Importantly, its 2020 operating

FFO increased by 13% to US\$3.3 billion with strong support from stable long-term contracted cash flows.

Where will BAM's growth come from?

BAM's fee-related earnings contributed US\$1.4 billion to FFO in 2020, representing growth of 19% from the prior year. These fee-related earnings will grow as its fee-bearing capital grows.

As of the end of 2020, Brookfield Asset Management had US\$602 billion of assets under management of which US\$312 billion bear fees. Its fee-bearing capital primarily consists of its long-term private funds (27% of its 2020 fee-bearing capital), perpetual strategies including its listed affiliates (30%), and credit strategies under Oaktree (39%).

The company invested US\$44 billion over 2020 and has loads of dry powder currently — US\$77 billion of deployable capital. It has launched its next distressed debt flagship fund, is now fundraising for its fourth flagship real estate fund, and expects to launch the next private equity and infrastructure flagship funds later this year. It also recently launched a Global Transition Fund, focused on decarbonizing the global energy grid, which should attract ESG investment capital.

The Foolish takeaway

Don't be deterred by its small yield of 1.2% versus the market's 2.5%. Brookfield Asset Management looks committed to maintaining its dividend-growth streak. The 8% dividend increase last week marks BAM's 10th consecutive year of dividend growth.

Last year, BAM's payout ratio was 24% of its cash available for distribution and or reinvestment. As a growth stock, it's going to reinvest most of this available capital to generate greater value for its long-term shareholders. Investors should [buy the stock](#) whenever it goes on sale, hold patiently, and watch your wealth growth.

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