



Is Brookfield Asset Management Stock a Buy for September 2022?

Description

Brookfield Asset Management (TSX:BAM.A)([NYSE:BAM](#)) is among the largest Canadian companies [trading on the TSX](#). It's an alternative asset manager with more than US\$750 billion of AUM (assets under management) across sectors such as renewable power, infrastructure, real estate, credit, and private equity.

Brookfield Asset Management aims to generate risk-adjusted returns over the long term and earn asset management income while doing so. The company has access to large-scale capital, allowing it to make investments in top-quality assets across geographies and asset classes.

Down 18% from all-time highs, let's see if Brookfield Asset Management should be part of your equity portfolio in September.

Why should you invest in Brookfield Asset Management stock?

Brookfield Asset Management's business continues to perform well, despite a challenging macro-environment. It generated US\$1.5 billion of net income and US\$1.2 billion of cash flow in the second quarter (Q2), ending the quarter with US\$111 billion of cash available for investment.

Its well-diversified business is a key differentiator, and several of the company's infrastructure, real estate, and renewable energy assets are positioned to benefit from inflation. In fact, BAM claimed the current inflationary environment is enhancing its cash flows and increasing replacement costs of the assets it owns.

Brookfield's clean energy power generation business continues to widen its advantage over other energy sources. For regions with no natural gas reserves, renewable energy sources such as solar, hydro, and wind will play a crucial role in the upcoming decade.

The Russia-Ukraine war has showcased the risks of energy dependence, with prices rising through the roof in the U.K. and Europe.

Additionally, last week, semiconductor giant **Intel** and Brookfield Asset Management disclosed an agreement where the two companies will fund around US\$30 billion to build chip foundries in Arizona. The partnership will allow Intel to manufacture chips on shore without increasing debt substantially on the balance sheet.

BAM's infrastructure affiliate will invest US\$15 billion and receive a 49% stake in the project, with Intel retaining majority ownership.

Is BAM stock overvalued or undervalued?

Brookfield Asset Management's distributable earnings stood at US\$1 billion in Q2 and US\$3.9 billion in the last four quarters, rising 26% and 25%, respectively, year over year. Its annualized run rate of fees and target carried interest surpassed \$8 billion, and the company's robust deployment of capital coupled with stable margins enabled BAM to increase fee-related earnings by 21% in the last year.

Distributions from its businesses continued to grow, amounting to US\$2.4 billion in the last 12 months due to the diversified nature of businesses and assets it owns.

Due to its inflation-hedged cash flows, Brookfield Asset Management pays investors a cash dividend of \$0.72 each year, indicating a forward yield of 1.1%.

Analysts tracking the stock expect Brookfield Asset Management to increase sales by 15.2% to \$110.3 billion, while earnings are forecast to expand by 29% to \$3.9 per share. We can see BAM stock is valued at 16.4 times forward earnings, which is quite reasonable given its profit margins are estimated to rise by 22.7% in the next five years.

Valued at \$100 billion by market cap, BAM stock is trading at less than one time forward sales and is available at a discount of 30% compared to consensus price target estimates.

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