Brookfield Asset Management (TSX:BAM.A) Stock Is Down 20%: Time to Buy?

Description

If you are looking for a TSX stock you can easily buy, hold, and own for decades, **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) might be one to consider. Brookfield is a solid anchor stock for any Canadian portfolio.

With over $750 billion of assets under management, it is one of the largest alternative asset managers in the world. It focuses its investments on real assets like infrastructure, renewables, real estate, and private equity. It also has forays in credit and insurance that are growing at attractive rates.

Brookfield Asset Management: A diversified stock with multiple levers of growth

One thing that makes Brookfield unique from other asset managers is that it invests its own capital alongside its investment partners (like pension funds, institutions, etc.). That means that not only does it collect fee revenues for the assets it manages, but it also collects a piece of the profits when assets are monetized.

Brookfield also holds large ownership stakes in several spun-out public entities like **Brookfield Infrastructure**, **Brookfield Renewables**, **Brookfield Business**, and **Brookfield Reinsurance.**

A great long-term track record

So far, its strategy has been very effective. Over the past 20 years, it has grown assets under management by a compounded annual growth rate (CAGR) of 32%. Distributable earnings have increased 12-fold to $4.9 billion today. It has grown its intrinsic value by 19.5 times. This TSX stock has delivered a 19% annualized return in that period.

The great news is that as Brookfield scales its business, it gets more opportunities to expand its services and business reach. The larger it gets, the more opportunities it gets to build out fund strategies and to invest in new opportunities.

As noted above, its insurance business presents a very attractive opportunity. Not only can it use its own capital and its partners capital, but it will have significant insurance float that it can invest into alternative asset opportunities.

Three pillars of growth

Brookfield was a first mover in building out public vehicles in infrastructure and renewables. Its expansion into insurance could be similarly accretive, especially over the long term.

Combine its capital investments, asset management, and insurance platforms, and Brookfield believes it could reasonably achieve 20% compounded annual distributable earnings growth for the coming five years. That means distributable earnings could more than double from here.

An attractive valuation today

Despite this optimistic outlook, Brookfield stock is down 19% this year. Its stock trades at a 45% discount to its estimates of intrinsic value. At 14 times funds from operation, Brookfield stock has not been this cheap since the March 2020 market crash.

Brookfield is looking to narrow the discount by spinning out 25% of its asset management business. It will be an asset light business that distributes most of its fee-based earnings back to shareholders. Brookfield believes the market could re-rate this side of its business and help provide some valuation upside over time.

The bottom line on Brookfield

Brookfield Asset Management is a market-beating financial stock with a long history of delivering solid returns. While it has had a great run so far, its outlook looks just as good or even better than the past. While there will be ups and downs, this is an excellent TSX stock to buy and tuck away for years to come.

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