



Brookfield Asset Management Spin-Off: What Investors Need to Know

Description

Brookfield Asset Management (TSX:BAM.A) plans to spin off its asset management business next week. The projected spin-off date is pegged at December 12. Here's what's happening and what it means for your portfolio.

How Will the Brookfield Spin-Off Work?

Brookfield Asset Management as we know it today is splitting into two entities. The current company is changing its name to Brookfield Corporation, and it will issue shares of a newly created asset management business. The newly spun-off business will be called Brookfield Asset Management.

Clear as mud, right?

We'll do our best to make these name changes easy to understand in the rest of the article.

When Is the Spin-Off Happening?

The new shares will begin trading **Monday, December 12, 2022**.

What Exactly Is Going to Happen With the Brookfield Spin-Off?

- After the spin-off, current shareholders will own shares of the asset management business ("new BAM") and shares of the newly renamed Brookfield Corporation.
- Brookfield Corporation will own about 75% of the shares in the asset management business ("new BAM"). In addition, Brookfield Corporation will maintain its investments in the asset management funds, which total around US\$75 billion. So after the spin-off, Brookfield Corporation will remain both a big owner of the newly spun-out company ("new BAM") and a big investor in its funds.
- For every one share of "old BAM" you own, you'll receive 0.25 shares of the asset management

business (“new BAM”) and one share of Brookfield Corporation.

Example

Let’s say you owned 100 shares of Brookfield Asset Management (“old BAM”) before the spin-off on December 12. After the spin-off, you’ll now own:

- 100 shares of Brookfield Corporation, plus
- 25 shares of Brookfield Asset Management (“new BAM”)

Do I Have to Do Anything With My BAM Stock?

No. You don’t need to do anything before or after the spin-off. The changes should happen seamlessly, and the new shares should appear in your brokerage account on or sometime after December 12.

Can I Make Money on the Brookfield Spin-Off?

Although current investors will own more shares after the spin-off, the short answer (without getting into all the calculations), is no. The new price of Brookfield Corporation is expected to be adjusted down to reflect the spin-out of the asset management business. So it’s as if you owned a large slice of pizza and cut it into two slices. You don’t actually have more pizza, you just have two, unequal slices, whereas before you had one.

Why Is Brookfield Spinning Off Its Asset Management Business?

If we have the same amount of pizza at the end of the day, why is Brookfield going through all this trouble to spin out its asset management business and change its name to Brookfield Corporation?

In short, Brookfield believes the asset management business will be worth more if it trades on its own. Brookfield owns a vast array of “stuff,” and sometimes conglomerates trade at a discount to the sum of their parts. That’s exactly what Brookfield hopes to eliminate by spinning out the highly profitable, asset-light, asset management business. The company has taken similar measures with its other publicly available subsidiaries.

Better Buy: Brookfield Corporation or Brookfield Asset Management?

So after the spin-out, which business is the most attractive to own? This is a great question, and unfortunately, we won’t know the answer until we see how the two stocks are priced after the spin-out. The “new BAM” will pay out about 90% of distributable earnings each year, so depending on the stock price after the spin-off, we think you can expect a dividend yield somewhere in the range of 3.25% to 3.75%. Investors who prefer higher dividends may choose to increase their exposure to the asset

management business (“new BAM”). Sometimes investors decide to sell off their shares in the newly spun-out businesses, and it’s possible this could create a nice buying opportunity for “new BAM.” We’ll just have to wait and see.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BN (Brookfield)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. tmfwordnerd

Category

1. Investing

Date

2025/09/30

Date Created

2022/12/08

Author

motley-fool-staff

default watermark

default watermark