Will Brookfield Asset Management’s stock price soar in 2023?

Description

After a difficult year for alternative assets, things are looking up for this industry. Interest rates and inflation expectations have declined in recent weeks, which means alternative assets such as private equity, private debt, and real estate could have a better run in the months ahead. As a result, investors have shifted their focus to investment giants like **Brookfield Asset Management** (TSX:BAM).

Brookfield stock is up a whopping 17.2% since January. The company’s recent reshuffling of its corporate structure has made this stock a pure play in the alternative assets sector. Here’s why this stock could soar in 2023.

Assets Under Management

Brookfield Asset Management (BAM) is currently one of the largest asset managers in the world, with over $750 billion in assets under management. As a result, it is an ideal stock for investors seeking exposure to renewable power and transition assets, infrastructure, private equity, real estate, and equity.

Additionally, BAM manages public and private investment products and services. In return, it earns management fees and additional performance fees for hitting certain return targets on its funds.

The asset manager has what it takes to push its fee-bearing capital to more than $1 trillion by 2025, representing an annual growth rate of about 15%. The high growth rates might explain the solid cash flows that the company continues to generate, allowing it to pay a nice dividend. The company is targeting a payout ratio of 90%, which should enable it to pay a much higher dividend in the future.

Alternative Assets

Institutional investors and wealthy families have already diverted a meaningful portion of their portfolios to alternative assets. In recent years, sophisticated strategies such as infrastructure investments, private debt instruments, leveraged buyouts, and private equity have seen tremendous capital flow.

These strategies are more popular when interest rates are lower. That means investors will pivot back to these assets if or when the central banks cut interest rates. Some experts believe that could be as early as winter 2023.

However, even if central banks keep rates "higher for longer," as they claim, Brookfield's strategies should outperform the roughly 3% yield on government bonds in Canada and the U.S. Put simply, a bet on alternative assets is wholly practical.

BAM Valuation

The stock is trading at a premium with a price-to-earnings multiple of 23. As a result, it is much more expensive than other financial companies. The premium valuation stems from the fact that the company operates under a less risky business model that does not involve investing in assets.

Instead, the asset manager pools clients' money and collects a fee for managing and investing it. Additionally, the more diversified business reduces its risk exposure to one asset class.

Investors should expect BAM stock to soar and outperform the rest of the market this year. There are clear signs that inflation has peaked and interest rate hikes are slowing down. That means alternative assets should be worth more by the end of 2023. If these private assets are worth more, Brookfield should see meaningful performance fees this year.

Quite conceivably, the company's earnings and AUM will expand in 2023, which is why the stock is worth a closer look by both income and growth-seeking investors.

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vraisinghani