



5 Important Things to Know About Brookfield Stock

Description

With a market cap of \$80 billion, **Brookfield Corporation** ([TSX:BN](#)) is one of Canada's largest stocks. Not only is it a leading asset manager around the world, but it owns significant stakes in a broad array of businesses (including [renewables](#), infrastructure, real estate, private equity, credit, and insurance).

Brookfield stock: A behemoth asset manager

One of Brookfield's strengths is its scale and diverse businesses. It has the infrastructure to invest in very large businesses that other competitors cannot. Likewise, it has the geographic expertise to invest almost anywhere in the world where value opportunities arise.

Now, this can also be a detraction. Many investors believe Brookfield is simply too complex to value or understand. Likewise, many investors are worried about economic headwinds that could slow or hamper its business. If you are stuck between these dynamics, here are five points that may help you better understand Brookfield.

Long-term managers invested with shareholders

Firstly, management is a key part of the investment thesis. You are investing in Chief Executive Officer Bruce Flatt and his talented group of capital allocators and operators. Mr. Flatt has turned Brookfield from a disjointed conglomerate of cyclical assets to a broad array of world-class, cash-flowing businesses.

Bruce Flatt personally holds a 4.5% stake in Brookfield stock, which is worth around \$2.5 billion today. Several of his lieutenants have similarly large \$700-\$900 million stakes in the business. A large portion of their wealth is tied up in Brookfield stock, which indicates a strong alignment with shareholders.

A new spin-out entity

Secondly, Brookfield recently spun out a 25% stake of its asset management business, **Brookfield Asset Management**. The asset management business is asset-light, cash-rich, and it earns a very predictable (and growing) stream of fees from the assets it manages.

The spinout was done to separate the two entities due to their different business models and to help the market better value the businesses. Likewise, it creates a public currency that Brookfield Asset Management could use potentially for acquisitions. Overall, the greater disclosure should help the market better understand and evaluate both businesses over the longer term.

Top-value investors have been buying Brookfield stock

Thirdly, while the market did not react overly positive to the spinout (Brookfield Corp. stock fell 14%), several smart, value-focused investors have been aggressively swiping up the stock. Well-known investment managers like Mohnish Pabrai (of Pabrai Investments), Chuck Akre (of Akre Capital Management), and Josh Tarasoff (of Greenlea Lane Capital) added substantial positions late last year.

Plenty of opportunities to keep investing

Fourthly, Brookfield is sitting on \$125 billion of investable capital. The company has a track record of buying when the market is scared and selling when the market is optimistic.

It buys [great assets](#) that are in distress or have dislocated value, fixes the business model, and then either reaps their cash flows or sells them at a profit. I suspect an economic downturn could provide some great long-term buying opportunities.

Some risks, but the stock is discounted

Lastly, Brookfield believes its stock remains [undervalued](#). It has been buying back stock, but it is balancing that with maintaining cash to be opportunistic for long-term accretive acquisitions. Management believes it can grow distributable earnings by a 25% compounded annual rate for the next five years.

Now, there are some near-term economic headwinds (like rising interest rates, inflation, and a slowing economy), that could put a damper on the stock. However, management has a great track record of thinking contrarian and counter-cyclically. It has paid off in the past, and it could pay off in the future, too. However, if you are an investor, you may have to be extremely patient for this thesis to play out.

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