STOCKTRADES PREMIUM COMPANY SUMMARY

BROOKFIELD ASSET MANAGEMENT

BAM.TO

UPDATED AUGUST 12, 2024

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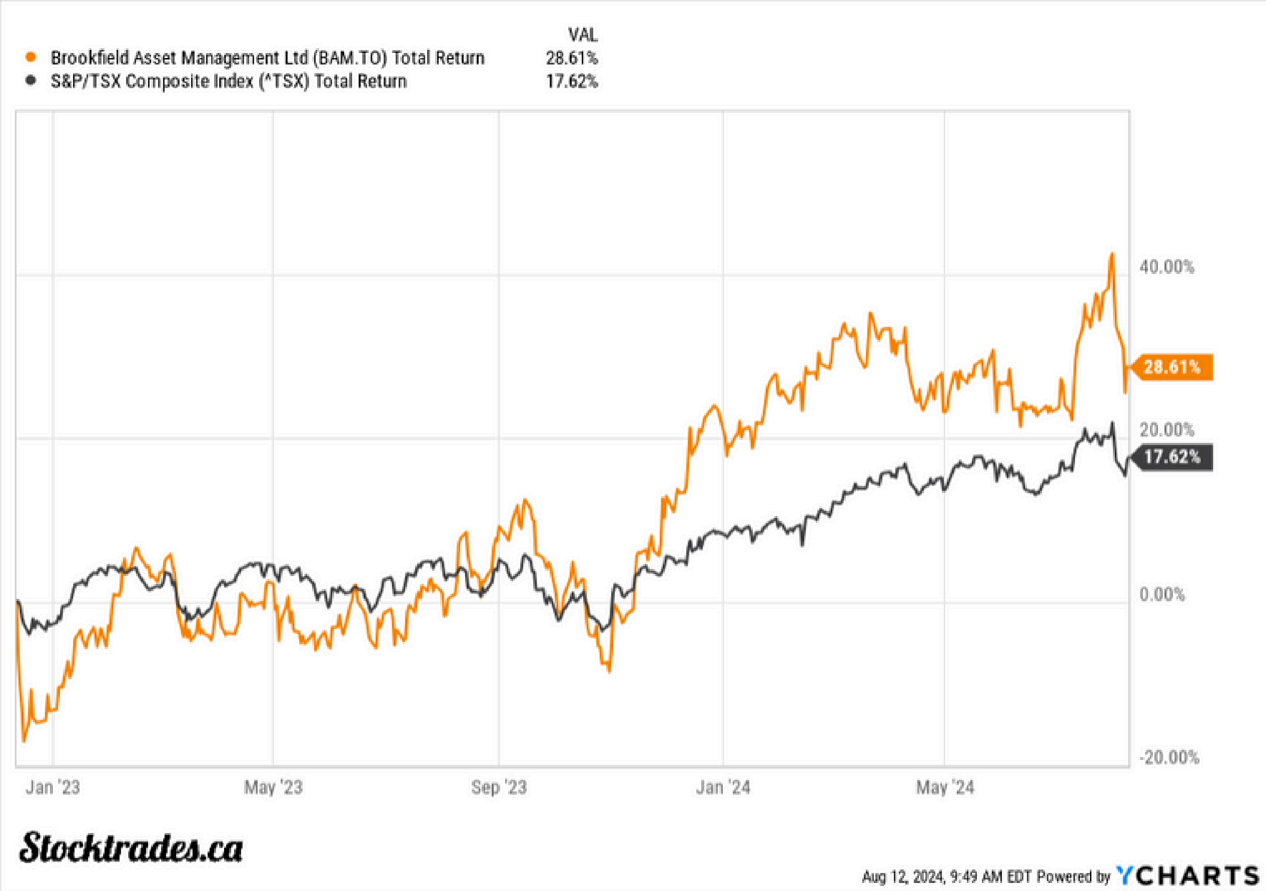


Brookfield Asset Management Ltd engages in providing alternative asset management services through an ownership interest in a leading global alternative asset management business. It offers a range of alternative investment products to investors around the world, including public and private pension plans, endowments and foundations, sovereign wealth funds, financial institutions, insurance companies, and private wealth investors.

OUR GROWTH SCORE: N/A

Sector: Financial Services

Industry: Asset Managers

Current Price: $54.39

OUR DIVIDEND SAFETY SCORE: N/A

Stock Type: Growth/Income

Our Risk Rating*: Defensive

1 Year Price Target: $49.38

PROS

- One of the strongest brands and blue-chip names in Canada
- Assets under management have nearly tripled since 2015
- Attractive yield with the potential for an annual special dividend
- Asset-light company with no big capital expenses
- Revenue tied to sticky, long-term contracts
- Attractive valuations despite recent runup in share prices

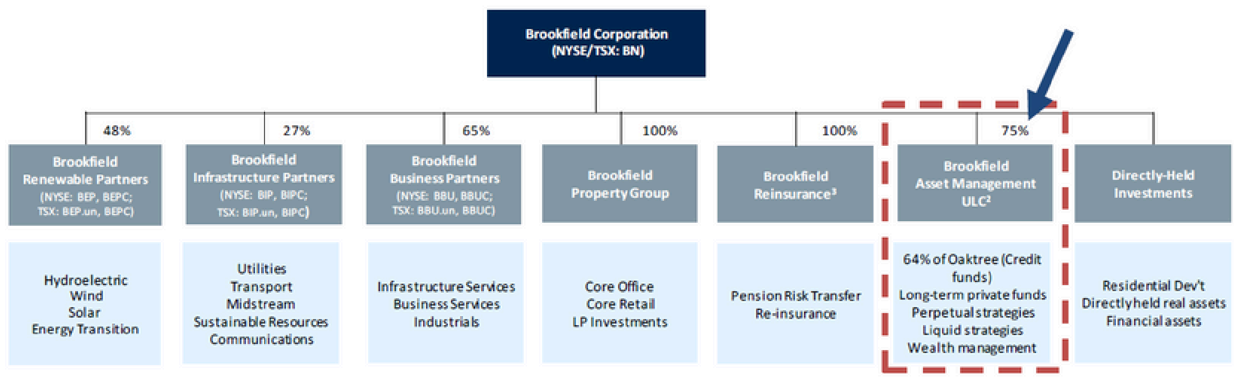
CONS

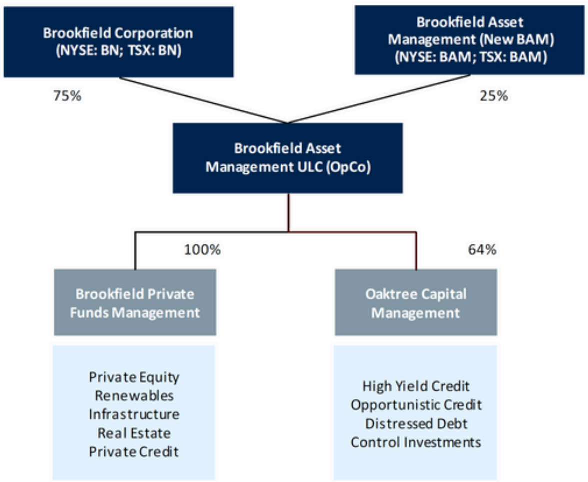
- Asset managers continue to be 'unloved' by the markets
- High exposure to tangible assets, which account for 60%+ of AUM - could be both a pro and a con
- BAM will not realize carried interest on historical funds, and new funds are not expected to contribute materially until 2027

OVERALL THESIS

Brookfield underwent a significant event when it spun off its Asset Management business which is the focus of this report. There was plenty of confusion around the move, but in essence, the old BAM.A became Brookfield Corp (BN), and the spinoff was a new Brookfield Asset Management (BAM) which is now a leading global asset management business. BAM.A holders received 1 share of BN and 0.25 share of the new BAM for every share of BAM.A held. The new securities officially began trading on December 12, 2022, and BAM.A was delisted.

The focus of this report will be on BAM, an asset-light asset manager who retains 64% ownership of Oaktree. To better illustrate the spinoff - the following are two graphs courtesy of RBC Financial. The first, highlighted in red, is what the BAM consists of. The second is a reflection of the new corporate structure of which Brookfield Corp still owns 75% of the company:





In the wake of the spinoff, the new Asset Manager is only eligible to receive carried interest on new funds. The expectation is that BAM will not realize carried interest until 2027. The Asset Manager generated $2.021B in fee-related earnings (FRE) and has $2.7B in cash with no debt.

In recent years, BAM has grown Fee Related Earnings (FRE) at 20%+ across all of its business segments. As an asset-light company (it does not own the assets - Brookfield Corp does), it'll benefit from higher ROE than asset-heavy companies and already has growth locked in through 2024 that is expected to drive 20%+ in earnings growth. The company expects to triple in size over the next five years.

The company is one of the biggest names in the space and has exposure to some of the fastest-growing segments in the alternative asset management space - which includes infrastructure, clean energy and credit (through Oaktree).

This growth, combined with an attractive yield and current valuations, makes Brookfield Asset Management one of the best Asset Managers today.

POTENTIAL RISKS

Given the new structure in which Brookfield Corp owns 75% of the Asset Management company and the fact it can nominate one-half of the board members, the success of BAM is highly dependent on the relationship between these two companies. While it is unlikely that these two won't see eye-to-eye in the near future, it is possible that the interests of the Corporation (BN) and the Manager (BAM) don't line up. As such, decisions made at the corporate level could negatively impact BAM's business.

Beta	**1.5**
Alpha	**0.74**
Our Risk Rating	**Def***
Max Drawdown	**46.7%**

For example, the corporation has the right to participate in up to 25% of any new sponsored fund but not the obligation. As such, decisions made at the corporate level could negatively impact BAM's business. For example, the corporation has the right to participate in up to 25% of any new sponsored fund but not the obligation. This means that if the corporation does not participate, it may have to go elsewhere to seek funds, which could hamper the company's ability to grow.

From a business perspective, the company's success depends on its ability to fundraise third-party capital, deploy it, and deliver returns. Fundraising generally depends on the macro environment, and it faces competition from others in the space seeking to raise funds simultaneously. Competition for capital is intense, and success relies heavily on reputation and performance. Any slip-up in those three areas has a ripple effect across the business.

As for Oaktree, which manages its credit strategies, the company states: *"weak economic environments have tended to afford the best investment opportunities and best relative investment performance to (credit) strategies."* However, a prolonged economic recession can have the opposite effect and negatively impact their ability to generate positive returns.

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

VALUATION

	TTM	5 Year Average	Industry Average
P/E	36.83	N/A	21
P/S	N/A	N/A	1.85
P/B	5.15	N/A	2.13
P/FCF	32.8	N/A	23.07
PEG Ratio (FWD)	0.96	N/A	N/A

Given that BAM is the spinoff, there will be little historical data to base ourselves on - at least from a standard data point of view. We can compare its share price against Fee Related Earnings (FRE). As an asset-light company, Brookfield generates revenue through fee-related services in the following 4 buckets: Base Management Fees, Incentive Distributions, Performance Fees, Transactions & Advisory Fees.

Over the last twelve months, the company generated $2.246B in fee-related earnings (FRE). As of the end of Fiscal 2022, BAM was trading at 25.1X FRE. Today, BAM is trading at 26.5 FRE, which is a massive jump over the 22.75x it was trading at when we covered the company a few quarters ago. This is not surprising; Brookfield's share price has jumped by more than 20% over the last year. The market finally took note of the company's undervaluation and has rewarded it accordingly.

How does it compare to Blackstone, arguably its most direct competitor? It now trades around 21x FRE. This means that Brookfield is trading at a premium after many quarters of trading at a discount. It is important to understand that Brookfield's expected growth rates are higher, so we don't really mind the premium valuation relative to its largest competitor.

Not only will Brookfield benefit from stronger investor sentiment, but given the company's impressive outlook, it is still well positioned in terms of valuations. As such, we still view BAM as attractively valued here.

If you remember, our November 2023 value call featured Brookfield Asset Management, and it turned out to be well-timed. In that newsletter, we mentioned that, on average, large multi-strategy asset managers typically trade for around 28-29x FRE. So today, BAM would appear reasonably valued.

However, if you consider the company's expected FRE growth rate (which is expected to be greater than their 15-20% target in 2024), then you start to see how, at the very least, BAM's share price should track their growth rates. We'd argue it deserves a premium since no large multi-national asset manager is poised to grow at BAM's pace.

COMPETITOR ANALYSIS

	BAM	BX	KKR
P/E	35.11	49.47	26.6
P/S	N/A	11.5	4.8
P/B	5.1	14.5	4.6
P/FCF	32.8	24.95	51

As a global asset manager and one that is dual-listed, it is best compared to US-listed peers such as Blackstone (BX), KKR (KKR), and Carlyle Group (CG). Of these, BAM is second only to Blackstone, with $750B in assets under management. Worth noting, however, that BAM's AUM breakdown is skewed toward tangible assets such as real estate and infrastructure, which account for ~63% of AUM worth $469B. In comparison, tangible assets account for only 34%, 35%, and 16% of BX, KKR, and CG's asset mix.

DIVIDEND ANALYSIS

Annual Dividend	Earnings Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
US$1.20	N/A	7.24%	11

Once again, the spinoff has impacted historical information on the company's dividend. As a new standalone company, there will be a tendency to 'restart' its growth streak. However, we believe extending the old BAM.A's streak to both companies is fair.

Now that it is a standalone company, we noted that BAM is well-positioned to deliver outsized dividend growth. The company’s policy is to pay out 90% of distributable earnings (DRE) as dividends. In Fiscal 2023, the company’s payout ratio stood well below this number.

The good news is that Brookfield announced an attractive 19% raise to the dividend along with Q4 and year-end results. Considering this raise, the forward dividend still only accounts for 87% of DRE. Since the company announced that it expects to eclipse the company’s 15-20% FRE targeted growth rate, we’d expect DRE to post outsized growth this coming year. That likely means another hefty raise will be on the way, assuming they deliver.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	$1.40	$1.66	$1.87
Revenue	$4.7B	$5.5B	$6.17B

Note that this table above is reflected in USD as are any of the numbers below.

Brookfield reported another mixed quarter. Revenue of $1.26B was right in line with expectations, while earnings per share of $0.468 missed estimates by around a penny.

The more accurate measure of growth for Brookfield is going to be its distributable earnings and fee-related earnings, which sit at $2.4B and $2.5B, respectively. This represents double-digit year-over-year growth on both ends.

When we look to fee-bearing capital, which would be the capital that is committed, pledged, or invested in Brookfield's funds and strategies, it now sits at $515B, a 17% increase on a year-over-year basis. When we look to total capital raised on the quarter, it sits at $68B. Over the last 12 months, the company has raised over $140B, representing the highest amount of capital raised over a 12-month period in the company's history.

The company made a few notable acquisitions on the quarter, purchasing a majority stake in Neoen, which is a renewable energy development business, GEMS Education, a private education provider in the Middle East, and nVent Electric, which is an electrical company that primarily focuses on the development and production of heat trace.

Overall, it was a relatively strong quarter for Brookfield, which is continuing to make significant investments that should allow the company to turn out double-digit distributable earnings growth in the future. The stock has gone through a bit of a downturn over the last 3 months or so, but we're still bullish on the Brookfield spinoff for the long term.

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