

Brookfield Asset Management

4Q23E: Fundraising missed but 2024 pipeline very strong with 4 flagships + AEL

Reiterate Rating: NEUTRAL | PO: 49.00 USD | Price: 39.79 USD

Positive financial results & guidance vs. expectations

Brookfield Asset Management (BAM) reported 4Q23 financial results and updated guidance that generally came in above our expectations. EPS of \$0.36 beat BofA and consensus (\$0.34), while fee-bearing inflows of \$23B missed our \$27B estimate (but Real Estate V and Transition II had large inflows in January). Deployments were robust with BAM investing \$15B compared to \$18B q/q and \$9B in 2Q23. On its earnings call, management guided to a strong fundraising year in 2024 composed of \$90-\$100B of inflows + \$50B AEL + 2023 fundraising efforts that were carried into 2024. BAM is currently raising 4 flagship funds (Global Transition II, Real Estate V, Oaktree Opportunities XII, and Strategic Lending Partners Fund), and will have an additional 50 strategies in market in 2024. Going forward, BAM's insurance platform should generate \$15-\$20B flows per year plus \$10B or higher from private wealth.

Increasing 2024-26 EPS and PO; Implies 25% return

We revised our 2024/2025/2026 EPS estimate to \$1.62/\$1.92/\$2.31 from \$1.47/\$1.77/\$2.10 due to higher fundraising and a lower tax rate. We increase our PO to \$49 (25% total return potential) from \$44 (still apply 22.5x our 2026 cash EPS estimate). Our cash earnings definition is 7% lower than DE as it excludes stock-based comp (our standard valuation method for the Alts).

Reiterate Neutral: Market leader with scale advantages

BAM is a leader and first mover in the fastest-growing segments of private markets including infrastructure, renewables, credit, and the insurance channel following the expected closing of AEL (estimate 2Q24). Additionally, BAM's APAC and LatAm businesses are much larger than peers, and BAM faces lower competition in these geographies. BAM also earns up to 115bps on the 35% of its insurance AuM that it reinvests into privates. Upside risks: (1) Fundraising acceleration in 2024 (Real Estate V, Transition II, AEL). Downside risks: (1) Listed vehicles could weigh on FRE growth (BBU could pursue M&A to boost its liquidity). (2) Elevated valuation - BAM was a successful spinout (from BN), as it trades at the highest multiple of consensus EPS (26x) within the alternative asset manager industry (BX 20x, KKR 16x, APO 13x). Reiterate Neutral.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.28	1.37	1.62	1.92	2.31
GAAP EPS	1.35	1.46	1.84	2.33	2.88
EPS Change (YoY)	NA	7.0%	18.2%	18.5%	20.3%
DPS	0	1.28	1.52	1.63	1.94
Valuation (Dec)					
P/E	31.1x	29.0x	24.6x	20.7x	17.2x
GAAP P/E	29.5x	27.3x	21.6x	17.1x	13.8x
Dividend Yield	0%	3.2%	3.8%	4.1%	4.9%

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Timestamp: 07 February 2024 08:20PM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	44.00	49.00
2024E Rev (m)	5,136.5	5,162.6
2025E Rev (m)	6,080.3	6,188.0
2026E Rev (m)	7,168.9	7,322.6
2024E EPS	1.47	1.62
2025E EPS	1.77	1.92
2026E EPS	2.10	2.31
2024E DPS	1.23	1.52

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Stock Data

Price	39.79 USD
Price Objective	49.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-7
52-Week Range	28.35 USD -41.22 USD
Mrkt Val / Shares Out (mn)	16,434 USD / 413.0
Free Float	92.5%
Average Daily Value	46.38 USD
BofA Ticker / Exchange	BAM / NYS
Bloomberg / Reuters	BAM US / BAM.N
ROE (2024E)	112.7%

iQprofileSM Brookfield Asset Management

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	4,048	4,381	5,163	6,188	7,323
% Change	NA	8.2%	17.8%	19.9%	18.3%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	1,792	2,014	2,282	2,644	3,002
% Change	NA	12.4%	13.3%	15.9%	13.6%
Non-Compensation Expenses	(3,732)	(4,154)	(4,726)	(5,485)	(6,221)
Net Income to Ordinary Shareholders	2,206	2,403	3,018	3,820	4,717
Adjusted Net Income (Operating)	2,099	2,247	2,657	3,150	3,789
% Change	NA	7.1%	18.2%	18.5%	20.3%
Adjusted EBITDA (Operating)	2,108	2,270	2,675	3,166	3,821
Cash EPS	1.23	1.28	1.50	1.78	2.16
% Change	NA	4.1%	17.2%	18.7%	21.3%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	52.1%	51.2%	52.7%	54.1%	56.1%
Pre-Tax Profit Margin	52.1%	51.2%	52.7%	54.1%	56.1%
Net Profit Margin	51.9%	51.3%	51.5%	50.9%	51.7%
Comp Expense/Revenue	-44.3%	-46.0%	-44.2%	-42.7%	-41.0%
Non-Comp Expense / Revenue	92.2%	94.8%	91.6%	88.6%	84.9%
Net Revenue Growth	NA	8.2%	17.8%	19.9%	18.3%
Operating Expense Growth	NA	10.3%	14.2%	16.2%	13.3%

Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
% Equity	NA	NA	NA	NA	NA
% Fixed Income	NA	NA	NA	NA	NA
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	NA	NA	NA	NA	NA
Organic Growth	NA	NA	NA	NA	NA
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	3,161	3,346	3,611	3,925	4,305
Total Shareholders' Equity	2,377	2,226	2,491	2,805	3,185
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	176.6%	97.7%	112.7%	118.9%	126.5%
Cash & Investments	NA	NA	NA	NA	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Asset Management

Company Description

BAM was incorporated in 2022 after Brookfield Asset Management spun out of Brookfield Corporation, which sought to optimize the valuation of the business and create an entity that served as a better comparable to the US alternative asset managers. BAM is headquartered in Toronto, Canada, and has offices around the world. While most private market managers were started by former employees of investment banks, BAM existed as an operator of assets for 85 years before taking third-party capital.

Investment Rationale

While we are positive on BAM's long-term growth trajectory, our Neutral rating is driven by its premium valuation, our relative bullishness on the industry, and an anticipated deceleration in fundraising in 2024 given the timing of its flagship fundraises. The company also offers investors strong long-term growth prospects (15-20% long-term FRE target), a capital-lite model (free cash flow rich => high dividend), locked-up AuM (only 16% of AuM can be redeemed), and operating efficiency.

Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	0.36E
Q2	0.32A	0.39E
Q3	0.35A	0.43E
Q4	0.36A	0.44E

Glossary

AEL: American Equity Investment Life Holding Company (NYSE: AEL)

AUM: Assets under management

DE: Distributable earnings

FRE: Fee-related earnings

BX: Blackstone

KKR: KKR & Co

APO: Apollo

Price objective basis & risk

Brookfield Asset Management (BAM)

Our price objective (PO) for BAM is \$49 and is derived from 22.5x 2026E cash earnings. This multiple is a premium to Alt peers given BAM's FRE-rich EPS. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp expense.

Risks to our PO are a weaker macro and capital markets backdrop, legal and political risk, increased regulation and tax reform, key person risk, and its unique corporate structure.

Analyst Certification

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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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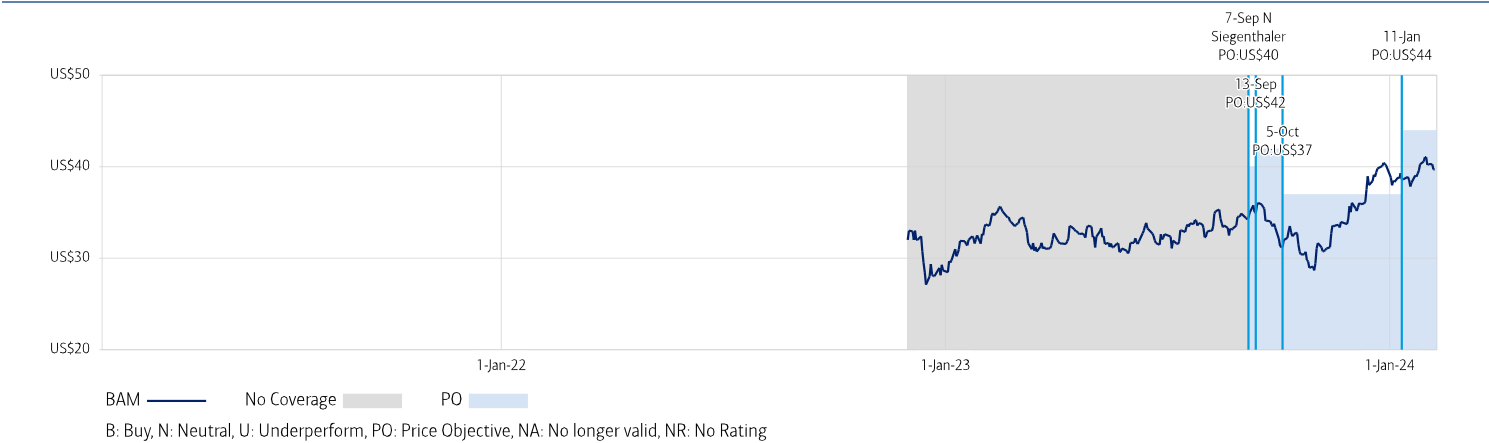
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Brookfield AM (BAM) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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