

QC INVESTMENT MEMO

To: Queen's Capital Executive Board
From: Zachary Leranbaum
Date: January 16, 2016
Re: Brookfield Asset Management

COMPANY PROFILE

Industry: Asset Management
 Main Asset(s): Real Estate

Market Capitalization 41,415.7
 Debt: 89,246.3
 Cash: 4,435.4
 Enterprise Value: 175,899.6

NTM(E) Revenue: 27,266.48
 NTM(E) EBITDA: 10,259.31
 NTM(E) FCF: 1,449

INVESTMENT PROFILE

Current (Proposed) Investment Size: 500
 Position Cost Basis: \$20,000
 Current Share Price: \$40.35
 Life to Date Profit (Loss): 20,179.00
 Life to Date Percentage Return: 662.76%

Base Case Valuation: 43.00
 Downside Case Valuation: 38.00
 Upside Case Valuation: 50.00

COMPANY DESCRIPTION

Brookfield Asset Management Inc. is a publicly owned asset management holding company. The firm invests in the property, power, and infrastructure sectors. Its property business include owning and managing office properties, developing master planned residential communities, and offering clients bridge and mezzanine lending; alternative assets funds; and financial and advisory services.

VALUATION

Company Comp Set							
Company Name	Market Cap	LTM Net Debt	TEV/EBITDA LTM	TEV/EBIT LTM	P/TangBV LTM	NTM TEV/Forward EBITDA (Capital IQ)	
Dream Office Real Estate Investment Trust (TSX:D.UN)	1,648.70	3,043.60	10.5x	10.6x	0.5x	10.82x	
Brookfield Infrastructure Partners L.P. (NYSE:BIP)	7,728.10	8,072.80	16.2x	16.1x	0.7x	15.94x	
Boardwalk Real Estate Investment Trust (TSX:BEI.UN)	2,116.60	1,998.10	21.4x	36.4x	3.2x	17.14x	
General Growth Properties, Inc (NYSE:GGP)	34,599.70	20,418.00	14.4x	41.1x	1.6x	15.31x	
Rouse Properties, Inc. (NYSE:RSE)	1,135.60	2,366.60					
Brookfield Asset Management Inc. (TSX:BAM.A)	39,589.00	84,810.90	17.1x	22.2x	2.0x	17.88x	
	Market Cap	LTM Net Debt	TEV/EBITDA LTM	TEV/EBIT LTM	P/TangBV LTM	NTM TEV/Forward EBITDA (Capital IQ)	
High	34,599.70	20,418.00	21.4x	41.1x	25.5x	17.14x	
Low	1,135.60	1,998.10	10.5x	10.6x	0.5x	9.59x	
Mean	9,445.80	7,179.80	15.2x	25.3x	6.3x	13.76x	
Median	2,116.60	3,043.60	14.4x	22.5x	1.6x	15.31x	

Company Comp Set							
Company Name	LTM Net Income Margin %	LTM Total Revenues, 1 Yr Growth %	LTM EBITDA, 1 Yr Growth %	LTM EBIT, 1 Yr Growth %	LTM Net Income, 1 Yr Growth %	NTM LT EPS Growth Rate (Capital IQ)	5 Year Beta
Dream Office Real Estate Investment Trust (TSX:D.UN)	0.83%	1.51%	4.02%	4.02%	(96.98%)	-	0.41
Brookfield Infrastructure Partners L.P. (NYSE:BIP)	10.88%	(3.32%)	(3.01%)	(9.82%)	-	6.00%	0.81
Boardwalk Real Estate Investment Trust (TSX:BEI.UN)	(20.85%)	2.43%	2.63%	5.03%	-	-	0.3
General Growth Properties, Inc (NYSE:GGP)	57.53%	(2.07%)	(2.34%)	3.29%	224.10%	7.05%	1.22
Rouse Properties, Inc. (NYSE:RSE)	9.87%	8.81%	9.70%	20.04%	-	6.53%	1.36
Brookfield Asset Management Inc. (TSX:BAM.A)	12.82%	4.23%	5.47%	3.69%	(2.30%)	13.00%	0.41
	LTM Net Income Margin %	LTM Total Revenues, 1 Yr Growth %	LTM EBITDA, 1 Yr Growth %	LTM EBIT, 1 Yr Growth %	LTM Net Income, 1 Yr Growth %	NTM LT EPS Growth Rate (Capital IQ)	5 Year Beta
High	57.53%	8.81%	9.70%	20.04%	224.10%	7.05%	1.36
Low	(20.85%)	(3.32%)	(3.01%)	(9.82%)	(96.98%)	6.00%	0.3
Mean	11.65%	1.47%	2.20%	4.51%	63.56%	6.53%	0.82
Median	9.87%	1.51%	2.63%	4.02%	63.56%	6.53%	0.81

QC INVESTMENT MEMO

	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>
Dividend	0.48	\$0.50	\$0.53	\$0.56
Expected Price				\$50.00
WACC	10.00%			

OUTPUT - Valuing Common Stock using a DDM

PV of the Dividends	\$0.48	\$0.48	\$0.48	
PV of the Expected Stock Price				\$43.19
PV of the Total Dividend Stream				\$1.44
PV of the Expected Price				\$43.19
Total Value of Common Stock				\$44.63

INVESTMENT THESIS

It's recent 1.5: 1, Stock Split has created a lot more interest in the company, and this new information combined with its announcement of a share buyback plan of up to 83,848,184 shares has stimulated this stock in the market. Brookfield is a company that is consistently outperforming analyst expectations and has just recently announced that it has begun raising \$23 Billion from investors for future acquisitions. In addition Brookfield is one of the top global assets management company with over \$200 billion in assets under management with solid potential. Brookfield also has amazing free cash flow growth of 83% in the past year, which is a great indicator, as well as numerous recent investments to bear fruit for the value investor willing to go long.

KEY INVESTMENT RISKS

FX	<p><i>Description of Risk I:</i> With the Bank of Canada strongly considering the possibility of lowering interest rates this would have a profound negative reaction on the Canadian dollar, Brookfield, at its core a Canadian based company, even though it operates across the world, this would make it much more expensive for Brookfield to operate in the United States and across the world.</p> <p><i>Mitigating Factor to Risk I:</i> Because Brookfield is such a large organization it makes a lot of economic sense for them to hedge the foreign exchange risk, with the fear of an interest rate chop coming soon, there has been talk in upper management about additional hedging options that may be possibilities in the near term.</p>
Liquidity	<p><i>Description of Risk II:</i> Because Brookfield is an asset management company, investing in primary real estate many of their larger assets are illiquid. Therefore, in times of economic distress it would be very difficult to recoup a fair value percentage of their capital if they needed to liquidate one of their larger assets on short notice.</p> <p><i>Mitigating Factor to Risk II:</i> Even though this problem seems daunting, Brookfield has been yielding superior risk adjusted returns for a long time and have proven by participating in strong partnerships as well as listed funds, that they are able to access over \$22 Billion in liquidity through these listed partnerships as well as an additional \$6 Billion in highly liquid assets in its core portfolio.</p>

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KEY INVESTMENT STRENGTHS

- Interest Rates** *Description of Strength I:* With The Bank of Canada strongly considering the possibility of lowering interest rates this would have a very strong positive effect on Brookfield as it would allow them to refinance their current debt to pay lower interest rates and therefore pay less interest on their billions of dollars of debt.
- Access to Capital** *Description of Strength II:* Brookfield is a reputable asset manager known across the world, with access to significant capital without much notice, a stock that is listed on multiple exchanges with well above investment grade bond ratings by multiple rating agencies as well as being a part of strong lucrative partnerships with other private equity funds, Brookfield is in fantastic position to access capital if need by for strong investment opportunities.
- CAGR** *Description of Strength III:* Over the past 5 years, Brookfield has been delivering superior risk adjusted returns to its investors, leaving it the ability to buy back stock and issue a consistent dividend throughout its history. This is proven again and again by Brookfield's 19% CAGR on Fee Bearing CUM as well as Brookfield's 29% CAGR on Fee Revenues & Fee Related Earnings

SUMMARY

All in all, it appears as if Bruce Flatt has done it again. A company that can consistently deliver to its shareholders, with a positive dividend, fantastic free cash flow and ROE as well as the fact that with the BOC about to lower interest rates, this seems to be the best time for Queen's Capital to invest. I rate Brookfield Asset Management (TSX:BAM.A) with a BUY Rating, so that the council would be able to capture as much of the growth potential that exists in this company ASAP.

Thanks,

Zachary Leranbaum

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