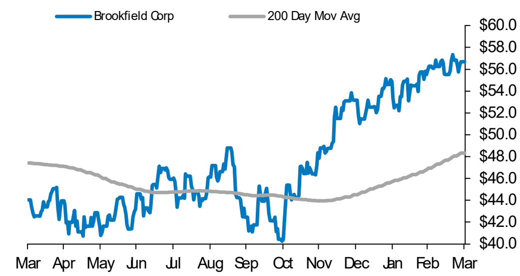
Brookfield Corporation (BN-T)

Sector: Financials

Company Overview

BN is Brookfield's capital investor, focused on deploying capital across operating businesses, growing cash flows & compounding capital over the long term. BN's investment portfolio comprises: 1) a 75% interest in BAM; 2) ownership in listed affiliates (BIP, BEP, BBU); 3) Brookfield Property Group; 4) Brookfield Reinsurance and other investments.

Brookfield Corporation			
BMO CM Rating	Outperform	**Target Price**	44.00
Current Price	56.68	**Dividend**	0.38
52-Week High	58.36	**Yield**	0.72%
52-Week Low	40.07	**BVPS**	36.07
Market Cap ($M)	93,000	**P/ BV**	1.6x
FYE (MM/ DD) 12/ 31	**2023A**	**2024E**	**2025E**
EPS	4.08	4.54	5.27
P/ E	13.9x	12.5x	10.7x
EPS Growth	-	11.2%	16.2%



Source: Bloomberg

Investment Thesis

BMO Capital Markets (BMO CM) believes the price of BN's stock is fundamentally disconnected from value with the investment portfolio. Potential catalysts to unlock value include: i) the consistent realization of carried interest; ii) recovery in commercial real estate values; iii) the return of capital via shareholder distributions; and iv) lower central bank rates.

Recent Developments

The key takeaway from Q4 results is that BN expects to repurchase at least $1B in stock over the next few months, an acceleration from $0.6B throughout 2023. 2024 earnings growth prospects appear favorable with the continued scaling of asset management and insurance earnings alongside potential for improving real estate fundamentals. The net result is BN's discount to NAV has narrowed to 15%, an improvement from 40% a year ago.

BN benefits from $6.2B (~$4 per share) in unrealized carried interest, up +10% y/y albeit decelerating from +19% in 2022 as rising rates weighed on performance fee generation. Looking into 2024, realization activity should pick up (2023: $0.6B; 2020-2022 average: $0.5B) as larger-size funds (e.g., 2016 vintage) near maturity and enter their monetization phase.

Target Price & Methodology

BMO CM's $44 target price is attributable to a higher target for BAM and marking-to-market the value of BN's ownership in the listed affiliates. The target methodology values the 73% interest in BAM at a $36/share target, the listed affiliates at market, BPG at a 25% discount to IFRS values, ~$7B in carried interest (i.e., unrealized balances), and other investments at book. Lastly, BMO CM applies a 10% holdco discount on BN's enterprise value.

Key Risks

1) Access to the capital markets (e.g. debt, equity) on reasonable terms; 2) rising interest rates; 3) availability of assets to purchase at attractive prices