

# Hedge Fund Confidential

The “Buy Side” Special Situations Report

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**LARGE CAP BUY IDEA** ☆☆☆

ANONYMOUS, NEW YORK, NEW YORK

## BAM: Do The Math!

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Brookfield Asset Management completed the anticipated spin off of Brookfield Infrastructure Partners, and is now well positioned to profit in the three core areas of their business: power generation, commercial and residential property management, and fund management. The shares are down 20% from their high of the last 12 months,

**NYSE: BAM**

**Market Cap: \$19 Bil.**

**Shares Outstanding: 607 Mil.**

**Current Share Price: \$31.33**

**12-Month Target: \$50**

largely due to investors' over estimation of the company's potential exposure to high-risk real estate markets. This presents an even more compelling opportunity since our first recommendation in September 2007.

The company recorded record cash flow of \$1.9 billion in 2007, and increased their annual dividend. Operating cash flow increased 45% from 2006. The gains within their financial asset and private equity portfolios more than offset the weakness from the US housing market and lower water levels in their hydro electric plants. The stock is now well below the true enterprise value of its subsidiaries, and only slightly above the value of the company's \$20 billion equity base.

- The US is facing an impending electricity crunch, as aging infrastructure has not been updated to meet the surge in demand. BAM owns a large portfolio of “green” low cost electric energy producing utilities in North America. Coal plants are expensive to build, and nuclear power plants take many years. Natural gas electricity plants, including many owned by Brookfield, continue to generate most of the electricity in North America. The company has negotiated long term natural gas contracts with their suppliers, and is in a position to profit from an increase in demand. .
- Environmentally conscious energy sources are trading at increasing valuations around the world, as oil prices peak and energy demand increases. Brookfield has 140 hydroelectric power generating stations with 3798 megawatts. These are highly illiquid assets, but recent purchases of such plants have gone for \$3 per megawatt or higher. This would value their portfolio at approximately \$12 billion, nearly 60% of the company’s total market capitalization.
- 90% of Brookfield’s real estate holdings consist of commercial property, and as such they have minimal exposure to the subprime market. 96% of their commercial properties are leased, with only 4% turnover per year, and rates at year end 25% higher than rents in place. The company owns 170 million square feet of office properties around the world, in premier locations as Canary Wharf, Manhattan and Boston. Based on cost per square foot, the value of their real estate subsidiary could easily dwarf the company’s entire market cap.
- Asset management firms have sold off with the financial services sector, and many are trading at rock bottom prices. BAM’s asset management division is undervalued compared to domestic peers, and income in this division more than doubled in 2007 from the previous year.
- The company has long term contractual cash flows in all its subsidiaries, minimizing downside risk at these levels. The financial community often undervalues large conglomerates in relation to their subsidiaries, which is why Brookfield spun out their Infrastructure Partners as a dividend to shareholders. The company management has made shrewd investments in areas with a growing and critical need, and the shares are not likely to remain at this level much longer