

Berkshire – Should I Stay or Should I Go

Berkshire is so big that it is actually easy to value it because all the individual moving parts can't have a big impact on the whole.

Summing it all up, BRK makes approximately \$26 billion organically from their owned businesses and the dividends from stock positions, plus there are approximately \$8 billion in earnings that the companies BRK owns just in part, make and reinvest for future growth, these are the so-called hidden earnings.

For example- BRK owns 5.4% of Apple, but only Apple's dividend is accounted for within BRK's earnings.

Apple Inc

127,10 USD

+126.95 (84,630.00%) ↑ all time

8 Jun, 09:59 GMT-4 · Disclaimer

NASDAQ: AAPL

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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	126,60	Mkt cap	2,12T	Prev close	125,90
High	128,46	P/E ratio	28,52	52-wk high	145,09
Low	126,45	Div yield	0,69%	52-wk low	81,83

With a PE ratio of 28.52, AAPL's earnings are \$74.3 billion on a market capitalization of \$2.2 trillion. However, AAPL pays only 0.69% of its market cap in dividends, which is \$14.6 billion – the difference of \$59.7 billion is what we call the 'hidden earnings' with BRK.

5.4% of the above \$59.7 billion is \$3.22 billion and that is something that BRK doesn't report but the value is there created for BRK by Apple. Adding it all up from BRK's portfolio, you get to about \$8 billion in earnings that are creating value but not reported in the accounting part (some say stock price increases adjust for that, but we are business investors here).

Sum things up and in a good year like 2021 BRK will do around \$36 billion in earnings. We have to keep in mind that 2021 will be an exceptional year given all the stimulus and free money, so growth rates ahead might be a little slower, especially if the US increases taxes. Let's use the above withing our valuation model.

BRK [LINK TO RESEARCH](#)

[STOCK VALUE LIST #1](#)

Scenario 1	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
normal case	36.00	38.16	40.45	42.88	45.45	48.18	51.07	54.13	57.38	60.82	64.47	1216.42	6%
	PV(10%)											468.98	10%
	INTRINSIC VALUE												20.0

Scenario 2	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
best case	36.00	38.88	41.99	45.35	48.98	52.90	57.13	61.70	66.63	71.96	77.72	1799.10	8%
in EUR												693.63	10%
	Present value sum												25.0

Scenario 3	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
worst case	36.00	37.80	39.69	41.67	43.76	45.95	48.24	50.66	53.19	55.85	58.64	837.72	5%
in EUR												322.98	10%
	Present value sum												15.0

Scenario	Probability	PV	Best
Scenario 1 (normal case)	0.6	468.98	281.39
Scenario 2 (best case)	0.2	693.63	138.73
Scenario 3 (worst case)	0.2	322.98	64.60
		Sum	484.71

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If I would have to value BRK from a realistic investing perspective, the worst-case scenario above would be my conservative, absolute return investing conclusion on BRK. So, my intrinsic value for BRK looking for a 10% investment return per year is \$322 billion. We can debate whether to add the \$70 billion Buffett says are absolutely available to be invested, but even if we add that, I get to about \$400 billion market cap.

The current market cap is \$653 billion.

Berkshire Hathaway Inc. Class A

429.694,50 USD

-4.916,50 (1,13%) ↓ today

NYSE: BRK.A

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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	435.392,56	Mkt cap	653,79B	Prev close	434.611,00
High	435.392,56	P/E ratio	6,51	52-wk high	445.000,00
Low	429.260,00	Div yield	-	52-wk low	262.700,00

\$653 billion, in my conservative scenario, would lead to a return of just 3% per year down the road.

												Terminal Value	Growth rate	
Scenario 3	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years
worst case	36.00	37.80	39.69	41.67	43.76	45.95	48.24	50.66	53.19	55.85	58.64	837.72	5%	5 to 10 years
in EUR	PV(3%)											623.34	3%	Discount rate
	Present value sum	623.34											15.0	Terminal multiple

The above implies a decline in valuation from the current PE of just below 20 to a PE of 15 10 years down the road which is closer to the market's and BRK's long-time average.

Of course, If I am a bit less conservative in the scenario, then the situation changes significantly and BRK is fairly valued for a 7% return.

BRK [LINK TO RESEARCH](#)

COMPARATIVE TABLE 1A1

												Terminal Value	Growth rate	
Scenario 1	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	6%	next 5 years
normal case	36.00	38.16	40.45	42.88	45.45	48.18	51.07	54.13	57.38	60.82	64.47	1216.42	6%	5 to 10 years
	PV(7%)											618.37	7%	Discount rate
	INTRINSIC VALUE	618.37											20.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 2	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	9%	next 5 years
best case	36.00	39.24	42.77	46.62	50.82	55.39	60.38	65.81	71.73	78.19	85.23	1954.70	9%	5 to 10 years
in EUR	PV(7%)											993.67	7%	Discount rate
	Present value sum	993.67											25.0	Terminal multiple

												Terminal Value	Growth rate	
Scenario 3	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years
worst case	36.00	37.80	39.69	41.67	43.76	45.95	48.24	50.66	53.19	55.85	58.64	837.72	5%	5 to 10 years
in EUR	PV(7%)											425.85	7%	Discount rate
	Present value sum	425.85											15.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	618.37	371.02
Scenario 2 (best case)	0.2	993.67	198.73
Scenario 3 (worst case)	0.2	425.85	85.17
Sum		654.93	

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Investment thesis

I am sure about one thing; I would NOT BUY BRK at current levels.

Berkshire Hathaway Inc. Class A

430.209,63 USD
 +217,072.50 (102.09%) ↑ past 5 years

NYSE: BRK.A

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1D | 5D | 1M | 6M | YTD | 1Y | **5Y** | Max



The market capitalization back then was \$400 billion and BRK's expected return on the above was around 10%.

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Berkshire's stock valuation (BRK) shows how it is currently cheap if you think America will continue to be America. When the ...

But, I have bought 10 BRK.B in May of 2020 and there return now is not 10% anymore, but 7% in the better case and 3% in the worst case scenario.

However, in the best-case scenario, if the market is happy giving BRK a PE ratio of 25 which is possible in the current low interest rate environment, there is another 50% of upside for BRK. But then the earnings growth rate has to be constant at 8% over the next 10 years and the PE ratio 25 in 2030. Everything is possible but I find such a valuation a bit stretched.

		Terminal Value										Growth rate			
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	8%	next 5 years	
Scenario 2 best case in EUR	Cashflow	36.00	38.88	41.99	45.35	48.98	52.90	57.13	61.70	66.63	71.96	77.72	1799.10	8%	5 to 10 years
	PV(7%)												914.57	7%	Discount rate
	Present value sum		914.57											25.0	Terminal multiple

First idea (changed below): So, I will sell my initial investment and keep my 3 gained shares of BRK.B forever. This will also allow me to follow it and get back in when BRK's stock price reaches my intrinsic value calculation.

UPDATE (decided to sell all not to complicate things going forward)

After re reading this the next day, thinking about buying 3 shares in the LARGE portfolio under another broker, having things mixed up there, I decided to sell the 3 shares so I have sold the complete BRK position – just to simplify things. I would not buy it now, and I am sure I can find better. So, there it goes.

With a tear in my eye, I have to say I no longer own BRK, but I have a feeling I'll be back one day.