



The 1 Private Equity Stock About to Go Nuclear

Description

Brookfield Business Partners LP ([TSX:BBU.UN](#))([NYSE:BBU](#)), the private equity arm of **Brookfield Asset Management Inc.** ([TSX:BAM.A](#))([NYSE:BAM](#)), announced January 4 that it is buying the global assets of Westinghouse Electric, a leader in nuclear technology, for US\$4.6 billion.

Westinghouse, owned by **Toshiba** since 2006, entered bankruptcy in 2017 after running into financial problems as a result of cost overruns and project delays with four of its new AP1000 nuclear reactors it was building in Georgia and South Carolina.

Since entering bankruptcy protection, Westinghouse has changed its focus from building nuclear reactors to servicing and decommissioning them.

“There are going to be many more of these old reactors that are going to be shut down, and then you have to do something with them ... A nuclear reactor, even after it’s shut down, has a whole bunch of radioactive material that has to be dealt with carefully,” said Prof. M.V. Ramana, the Simons Chair in Disarmament, Global and Human Security with the Liu Institute for Global Issues at the University of British Columbia. “That’s the business that Westinghouse sees as a growing business at this point.”

On the surface, this deal doesn’t appear to be a winning move by Brookfield’s 76%-owned private equity subsidiary, but the company prides itself on buying assets below replacement cost, fixing the problems that caused the assets to deteriorate in the first place, and then holding the assets until they’re valuable again.

One of the five best stocks on TSX

It’s a big reason I [consider](#) Brookfield Asset Management one of the five best stocks on the TSX. It makes investing look easy when the reality is that it’s incredibly taxing work. Nobody works harder at understanding its assets.

“Brookfield really does look for situations where they feel they can create a lot of value, whether that’s by restructuring the balance sheet or cleaning things up operationally,” said Ann Dai, a New York-based analyst with Keefe, Bruyette & Woods Inc. “Those are things they’ve had a lot of history doing successfully, so that’s probably what they’re seeing in this situation.”

One shouldn’t forget that this is Brookfield Business Partner LP’s biggest acquisition to date. Brookfield Business Partner LP is putting approximately \$500 million equity into the purchase with limited partners and co-investors matching that amount with the rest in debt.

If it can pull this one off, it will become a real player in private equity, and that’s got a higher stock price written *all* over it. When you consider that Brookfield Business Partner LP has a market cap of \$5.8 billion, about one-tenth of **Blackstone Group LP**, the biggest private equity firm in the world, there’s a lot of potential growth ahead of it.

The risks are worth it

Yes, there are risks, but Brookfield’s bread and butter are correctly assessing that risk and then doing what’s necessary to avoid getting hit by a direct blow. In this regard, I believe it’s better than **Berkshire Hathaway** at covering every angle of an investment.

“Westinghouse is a high-quality business that has established itself as a leader in its field, with a long-term customer base and a reputation for innovation,” said Cyrus Madon, CEO of Brookfield Business Partners LP. “We look forward to bringing our significant expertise and reputation as a long-term owner and operator of critical infrastructure in the U.S. and globally, as well as our deep facilities management capabilities, to enhance the company’s position as a leading global infrastructure services provider to the power generation industry.”

At the end of the day, at least for me, if Brookfield likes the assets it’s buying, I have no reason to doubt it, especially with its [track record](#) — an annualized total return of 16.4%, which is 663 basis points better than the S&P 500.

It looks to me as if BBU stock is about to go nuclear.

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1. Editor's Choice

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