



## Got \$3,000 to Invest? This 1 Stock Can Deliver Explosive Gains

### Description

Stock investors have been on a volatile roller-coaster ride this year. Particularly, **Brookfield Business Partners** ([TSX:BBU.UN](#))([NYSE:BBU](#)) stock has been more volatile than the market with a beta of about 1.69, according to Yahoo Finance.

The stock had delivered outperforming returns of 30% per year from when it was spun off from its general partner and manager **Brookfield Asset Management** in mid-2016 to late 2018.

After that, BBU stock traded in a sideways channel until early 2020 before participating enthusiastically in the March market crash. The stock fell about 60% from peak to trough! Since then, it has bounced swiftly and has, for now, settled in the US\$29 range, which is roughly 35% below the peak.

The selloff is a blessing in disguise, as the company can deliver explosive growth in the long haul.

### Q1 results

In Q1, BBU reported company EBITDA of US\$294 million, which was 10.5% higher year over year.

The increase was largely attributable to investments it made in Clarios, a global manufacturer of advanced automotive batteries, and Alterra Infrastructure, which provides essential services to the offshore oil and gas sector.

Company funds from operations (FFO) declined 5.4% to US\$194 million and were down 18.9% to US\$1.29 on a per-unit basis.

The decrease was primarily due to higher interest and tax expense from the acquisition of Clarios and Genworth as well as the consolidation of Cardone Industries, a U.S.-based manufacturer of automotive aftermarket replacement, starting in Q1 2020.

## Near-term challenges

BBU's business performance is sensitive to economic booms and busts. Since the global economy is contracting, BBU stock has traded lower year to date.

Its industrials segment is cyclical, but it also provides essential services to its clients. Nonetheless, BBU will experience a reduction in cash flow this year. However, its cash flow will normalize as the economy normalizes over time.

Management expects a challenging 2020 and anticipates Q2 results to be hit the hardest. Investors should note that it is set to report its Q2 results on August 6, and that the stock will be even more attractive for long-term investment on any further selloffs.

## Strong liquidity

BBU has strong liquidity to weather this economic downturn. At the end of Q1, at the corporate level, it had US\$2 billion of cash, marketable securities, and undrawn capacity from credit facilities.

So, it's in the financial position to support its businesses that require more capital (e.g., Multiplex, a construction services company, and Cardone) as well as make new investments in a stressful global economy. Its [portfolio of businesses](#) has an additional roughly US\$4 billion of liquidity.

In the Q1 earnings call, BBU explained that Multiplex has no debt but "[had] work suspensions in the U.K., and material reductions in project-level productivity and increased costs." So, Multiplex will require some capital injection from BBU (and its institutional partners).

## Eyes set for the long term

[Brookfield Business Partners](#) aims to invest in businesses that generate strong cash flow and have competitive advantages, such as high barriers to entry or low production costs. It then enhances value creation through operational improvements.

In the current recession that triggered high volatility in the stock market, BBU has identified about five high-quality companies that are trading at massive discounts from their intrinsic values. It could invest in them and earn high returns. Of course, it has also been buying back BBU units, as they are cheap.

BBU aims for long-term returns of 15-20% per year. By buying BBU units at current levels, investors can expect even greater long-term returns.

Interested investors should have an investment horizon of at least three to five years to allow time for the economy to recover.

### CATEGORY

1. Dividend Stocks
2. Investing

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