



## 1 Timely Growth Stock to Buy in October 2020

### Description

Growth stock **Brookfield Business Partners** ([TSX:BBU.UN](#))([NYSE:BBU](#)) has been consolidating after the March market crash. Its stock price seems to have stabilized. If you have an investment horizon of three to five years, you should [consider accumulating shares](#) here.

### A good time to buy this growth stock

BBU's cyclical nature is temporarily hiding its growth. That's what makes it a timely growth stock to buy now in October 2020.

*Investopedia* explains that the "return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity."

Brookfield Business Partners' trailing 12-month ROE was 4%. However, during years when the economy is doing fine, it's known to generate ROE of 10-20%.

### How the growth stock makes money

Brookfield Business Partners aims to buy quality businesses and improves the businesses' margins, profits, and cash flows.

As a value investor, BBU targets to buy undervalued businesses. Occasionally, though, it would buy a business at a fair valuation if it can enhance value via operations improvement. In most cases, it sells businesses for hefty profits after it has improved them with its magic.

For example, BBU, together with its institutional partners, acquired a controlling interest in North American Palladium, the only pure-play palladium producer in the world, in 2015. Last year, it sold its stake in the company for a 26% rate of return for total proceeds of US\$570 million (of which BBU unitholders owned 20% interest).

What led to the incredible profits was [BBU's](#) "successful operational turnaround resulting in consistently strong earnings, significantly increased palladium production and mine life, growth of reserves through exploration activities, and reduced costs. Palladium demand has remained robust, supported by strong demand from the auto industry for use in catalytic converters that support reduced emissions."

Another recent example was BBU selling Nova Cold Logistics, a cold storage service provider, to **AmeriCold Realty Trust**, in January for 13 times its original investment, equating to an astounding rate of return of 56%! This translated to proceeds of US\$175 million (BBU unitholders has a nearly 26% stake in this).

These examples highlight BBU's key advantage as an outstanding operator who enjoys deals that can't be done by other companies without institutional partner relationships.

While owning the businesses, BBU also generates earnings and cash flows from them. Regardless, retained earnings are reinvested and ultimately lead to greater profits down the road.

## The growth stock is a bargain!

At writing, BBU stock trades at US\$32.21 (or CAD\$42.58) per share. Both the management and analysts think the stock should be worth about US\$40 per share today. This price target represents a discount of close to 20% or near-term upside potential of 24%.

BBU has lots of liquidity to fund growth. At the corporate level, it has approximately US\$2.3 billion. Its businesses have additional liquidity of roughly US\$5 billion!

## The Foolish takeaway

BBU can especially benefit from today's challenging macro environment by scooping up distressed businesses around the world. It can look for the best investment opportunities because of its geographical reach.

The growth stock is trading at depressed levels, making it satisfying for investors to accumulate discounted shares now. At current levels, a five-year total rate of return of more than 12% is in the cards.

Because of the cyclical nature of the stock, investors should consider employing active investing in the stock. In other words, aim to buy low and sell high.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
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### TICKERS GLOBAL

1. NYSE:BBU (Brookfield Business Partners L.P.)
2. TSX:BBU.UN (Brookfield Business Partners)

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