3 Reasons to Buy Stantec Today

Description

Though not a household name like **Tim Hortons** or **Bell**, **Stantec** (TSX:STN)(NYSE:STN) is a Canadian success story just the same. With 13,000 employees in 200 locations throughout North America, plus a handful of international offices, Stantec is one of the largest and most successful planning, architecture and engineering design firms.

Since becoming a publicly traded company 20 years ago, gross revenue has grown at a compound annual rate of 18.5%, and shareholders have been justly rewarded. Stantec's stock gained 58% during 2013, and 56% over the past 12 months.

With a strong position in Canada, Stantec has its sights set on the large U.S. market and continuing its steady progress in international markets. Its goal is to become one of the world's top 10 design firms, and compete with companies like **AECOM** (NYSE:ACM), **Fluor** (NYSE:FLR) and **SNC Lavalin** (TSX:SNC).

As an investment, there is a lot to like in Stantec. Here are just three reasons why you should consider adding a few shares to your portfolio today.

1. A large market opportunity in the U.S.

Stantec has a dominant position in Canada that it's successfully leveraging to grow U.S. revenue. It generated $2.2 billion in worldwide revenue in 2013, an increase of nearly 20% over 2012. The Canadian market represents 58% of total global revenue, with the U.S. accounting for 39%.

Though the U.S. represents a sizable portion of total revenue for Stantec, it has a lot of opportunities to grow. Its share of the American market is estimated at just 2%. And the need for design services like engineering, architecture, and construction, is huge — in excess of $90 billion annually in the U.S. The long-term growth prospects are very promising given the desperate need to renew North America's aging infrastructure.

Part of Stantec's success in Canada is due to its experience in delivering public private partnership, or P3, projects. A P3 infrastructure project is funded and operated through a joint effort of government and private business. With the U.S. government's inability to fund much needed infrastructure projects, the P3 delivery model is becoming more prevalent in the United States. Stantec is well positioned to leverage its Canadian P3 expertise to grow U.S. revenues.

2. Strong organic growth

Selling more to new and existing customers, without the need to rely on acquisitions for growth, is always a good sign in the architecture, engineering and construction industry. And Stantec is doing just that.

Organic revenue grew an impressive 8.8% in 2013, much higher than management's guidance and analysts' expectations. Stantec gives much of the credit to its "three-dimensional" business model.

Stantec provides services across multiple geographies, practice disciplines like architecture and engineering, and all phases of a project's life cycle, from planning and design to maintenance and decommissioning. The diversity of its business model provides ample opportunity to sell additional services to existing clients, and acts as a natural shock absorber should demand fall in an area of the business.

Management has guided for organic revenue growth in the 4% range for 2014. However, Stantec has a history of conservatism — organic growth exceeded management's initial guidance by several percentage points in both 2012 and 2013. And when leveraging the strength of its business model and cross selling additional services to existing clients isn't enough, there is Stantec's acquisition expertise.

3. Exceptional acquisition track record

Stantec completed seven acquisitions in 2012, and five in 2011. Stantec has demonstrated an ability to successfully add firms to complement its business model in areas where it may be weak, namely geography, practice area or project delivery phase.

Though only five companies were acquired and integrated by Stantec in 2013, management is expecting a much higher level of acquisition activity in 2014. There are approximately 30 firms in its acquisitions pipeline at different stages of discussion. Stantec's proven ability to target and integrate firms that share its culture, and strengthen its business model, will support its impressive growth trajectory.

Foolish bottom line

Stantec recently released its 2013 results, and clearly the company is delivering for both clients and shareholders. Net income rose from $121 million to $146 million, an increase of 21%. And diluted earnings per share rose 19%, from $2.64 per share to $3.14 per share. 2013 marked Stantec's 60th year of uninterrupted profitability.

As a result of continued strong results, and a solid outlook for the company, Stantec announced a 12% increase to its dividend to $0.185 per share for a yield of 1.10%.

With a sizable growth opportunity in the U.S., a business model that is delivering nearly 9% organic revenue growth, and a successful approach to acquiring firms, Stantec deserves consideration for your diversified portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ACM (AECOM)
2. NYSE:FLR (Fluor Corporation)
3. NYSE:STN (Stantec Inc.)
4. TSX:ATRL (SNC-Lavalin Group)
5. TSX:STN (Stantec Inc.)

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jklacey