3 Stocks to Profit From North America's Crumbling Infrastructure

Description

After decades of under-investment, much of North America's infrastructure needs repair.

In the U.S. for example, the American Society of Civil Engineers evaluates infrastructure once every four years. In its 2013 report, America's infrastructure received an overall grade of D+, slightly better than the D- earned in 2009. In order to improve its infrastructure to a state of "good repair", a whopping $3.6 trillion must be invested by 2020.

Earlier this week, President Barack Obama urged Congress to pass a bill to dramatically increase federal transportation investment. To highlight its urgency, Obama quipped, "we've got more than 100,000 bridges that are old enough to qualify for Medicare."

Here in Canada, the Federal government recently announced the New Building Canada Fund, and with it the commitment to spend $14 billion on infrastructure over the next 10 years. The plan will fund a wide range of projects in areas including transportation, public transit, drinking water, and wastewater. Though local politicians and civic leaders say the level of funding is too low, and doesn't come soon enough, they are glad to see a renewed commitment to long-term, stable infrastructure funding.

If you're looking for a few ideas on how to profit from the huge investment that will be made in modernizing North America's aging infrastructure over the next few decades, here are three.

Stantec

With 13,000 employees in 200 locations throughout North America, plus a few international offices, **Stantec** (TSX: STN)(NYSE: STN) is a Canadian success story, and one of the largest planning, architecture, and engineering design firms.

Stantec is a juggernaut in Canada, and has its sights set on the huge U.S. market – estimated to be in excess of $90 billion annually. One of its strengths, among many, is its expertise with public-private partnerships, or P3, projects.

With P3 projects, governments select companies to assume much, if not all, of the risks associated with designing, developing, building, operating, and maintaining an infrastructure asset, often for decades. By assuming the additional financial, technical and operational risk, private businesses are incentivized to run the project as efficiently as possible, and maximize their return on investment.

Canada is one of a handful of nations to embrace P3 project delivery. The U.S., with governments at all levels drowning in debt, is beginning to use public private partnerships more often. And Stantec is well positioned to leverage its expertise, and continue its impressive growth, both here in Canada and the U.S.

SNC-Lavalin

Montreal-based **SNC-Lavalin** (TSX: SNC) is working hard to put a series of corruption and bribery scandals, including allegations of unethical dealings in Africa, behind it.

The engineering and construction firm is undergoing an impressive transformation under President and Chief Executive Officer Robert Card. Since his appointment in 2012, the stock is up 36%, handily beating the 22% return for the **S&P/TSX Composite Index** (TSX: ^OSPTX).

SNC-Lavalin is one of Canada's largest industrial companies, and a global leader in engineering and construction. Like Stantec, SNC-Lavalin has deep expertise with P3 project delivery — it is a major player in the ownership of infrastructure, and in providing operation and maintenance services under long-term contracts. Its ownership stake in Ontario's Highway 407, for example, added nearly $30 million to SNC-Lavalin's net income during the first quarter of 2014.

With strong first-quarter results recently announced, the future is looking much brighter for SNC-Lavalin.

Aecon Group

Not to be mistaken with AECOM Technology, the U.S. planning, architectural, and engineering design firm, Toronto-based **Aecon Group** (TSX: ARE) is Canada's largest publicly traded construction and infrastructure development firm.

Over the past 12 months, Aecon's stock is up nearly 53%. However, it delivered disappointing first-quarter results, missing expectations on earnings and delivering's revenues that fell 18% from the year earlier period. However, on a positive note, its backlog increased 22.8% sequentially, and 5.1% from the first quarter a year earlier — it now totals $2.2 billion.

The first quarter is usually its weakest, so investors should be watching closely to see how Aecon rebounds during the balance of the year. However, over the long run, Aecon's strength in transportation infrastructure and its leadership position within Canada should help it earn market-beating returns.

CATEGORY

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