



Liberal Majority Boosts Infrastructure Stocks

Description

Trudeau's plans are to double federal infrastructure spending in the next two years, and to almost double infrastructure investments to nearly \$125 billion over the next decade. There will be new dedicated funding to provinces, territories, and municipalities for public transit infrastructure, social infrastructure, and green infrastructure. This is obviously good news for infrastructure companies.

Two companies that I would like to highlight that will benefit from this are **Aecon Group Inc.** ([TSX:ARE](#)) and **Stantec Inc.** ([TSX:STN](#))([NYSE:STN](#)).

Aecon Group

Aecon Group is one of Canada's largest publicly traded construction and infrastructure-development companies and has been active since 1877.

Aecon is involved in the following business segments:

- mining, which offers mine-site installation services and contract mining services;
- infrastructure, which groups all of Aecon's transportation, heavy civil, utilities, and social infrastructure capabilities and services; and
- energy, which offers a full suite of construction and fabrication services to the oil and gas, nuclear, co-generation, and renewable sectors.

To be fair, the company and the stock was already doing really well even before Trudeau's plan was announced. The second quarter ended June 30, 2015 saw a revenue increase of 13.2 %, with the infrastructure segment (29% of revenue) revenue increasing 17%, the energy segment (historically 15-20% of revenue) seeing a marginal increase in revenue, and the mining segment seeing an almost 40% increase in revenue.

Margins also increased nicely, with the company's EBITDA margin increasing to 4.5% from 2.4% in the second quarter of last year. The company's EBITDA margin target is 7-8%, and the current progress is encouraging.

Turning to the balance sheet, the company's debt balance has been decreasing and the cash balance is currently over \$100 million, which was aided by the Quinto airport concession sale.

Stantec

Stantec provides professional consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, environmental sciences, project management, and project economics for infrastructure and facilities projects. As such, the company will also benefit from the government's plan to increase infrastructure spending.

This is a high-quality company, in my view, with a good track record and a history of prudent capital management, strong ROE, and strong free cash flow generation. In the latest quarter ended June 30, 2015, Stantec reported a 12.1% increase in revenue and a 5.1% increase in EBITDA. While the company also saw relative weakness in its energy segment, as expected, its business and infrastructure units experienced strong revenue growth.

In keeping with its goal to increase its U.S. presence, the company purchased VI Engineering LLC in July and announced the planned tuck-in (smaller) acquisition of a Boston-based engineering, planning, and environmental firm.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:STN (Stantec Inc.)
2. TSX:ARE (Aecon Group Inc.)
3. TSX:STN (Stantec Inc.)

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