Aecon Group Inc.: Quarterly Results Point to Better Times Ahead

Description

Aecon Group Inc. (TSX:ARE) reported its third-quarter 2015 results last week, giving investors some positive news to get excited about. The stock had been languishing until the beginning of 2015, when the stock starting slowly increasing, and it is now up approximately 35% year-to-date. So, what is the reason for this and what can we expect going forward?

Healthy revenue growth

Revenue growth in the third quarter was 7% after adjusting for the impact of the sale of Innovative Steam Technologies that was completed earlier this year. For the first nine months of the year, revenue increased 10%.

This increase in revenue is attributed to strong demand in the Infrastructure segment, which is due to its many large-scale projects as well as heavy civil opportunities, and strong growth in the Mining segment.

Increasing margins

Adjusted EBITDA increased 21.8% in the Infrastructure segment (which accounts for 37% of revenue), 59% in the Mining segment (24% of revenue), and decreased 23% in the Energy segment (38.7% of revenue).

The company achieved overall EBITDA margins of 8.7% in the quarter. Although Aecon's business is seasonal, and the first half of the year (particularly the first quarter) typically generates lower revenue and profits than the second half of the year, the company expects margins to continue to slowly improve on a year-over-year basis. The Mining segment reported the best margins, which came in at 11.9%.

Strong backlog

Backlog improved 27.3% in the quarter to $3.39 billion. The Infrastructure segment's backlog had the strongest growth, posting a year-over-year growth rate of 61.4%. It's no surprise that the Energy segment posted an 18% decline in backlog, but this decline highlights the benefits of Aecon's diverse revenue sources.

Strong and improved balance sheet

Aecon's balance sheet is currently quite strong with a debt-to-total-capitalization ratio of just under 45%. And when the agreement to sell the Quito airport concession for US$195 million is finalized, the balance sheet will be even stronger, leaving room for the company to invest further in the business and possibly make acquisitions in order to fuel growth.

In summary

Management has stated that they will focus on returning capital to shareholders over time and that they see unprecedented opportunities in their key sectors. Revenue is growing nicely, and profitability is strong. Canada's infrastructure requires big investments over the next few years, and the mining sector also requires investments in its infrastructure. So, it looks like Aecon is very well positioned to take advantage of these opportunities.

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