



## 1 Underperforming Gem to Consider in the Construction Space

### Description

From time to time, it is a good policy to take a closer look at stocks that have underperformed for a given amount of time in the prudent search for value in today's largely overvalued world. **Bird Construction Inc.** ([TSX:BDT](#)) is such a company, having seen its stock price drop 20% in the past year.

I'll take a look at why this company's valuation is so depressed compared to other large industry-leading companies such as **SNC-Lavalin Group Inc.** (TSX:SNC), and what the future may hold for Bird Construction in 2017.

### Dividend cut hurt stock price and company valuation

The dividend has recently been cut, which is not a good thing for investors who have owned this stock for some time; however, it does add a "security blanket" of sorts to the dividend. Investors choosing to get in now may have an excellent entry point for a rebound through 2017 as the company works through some of the market turmoil which has plagued the construction business — largely in western Canada.

The sustainability of the company's dividend moving forward appears to be insulated thanks to the recent cut, meaning investors can expect the current yield of 4.2% to be achievable moving forward. Bird Construction's dividend compares well to other large firms such as SNC-Lavalin; dividends are generally sub-2% or non-existent.

### Alberta exposure a large hindrance on company performance

One key factor to consider with Bird Construction is that this is a company in the real estate business with significant exposure to commercial and office real estate in western Canada. Since the real estate downturn in Alberta and the newfound decline in B.C., companies operating in the construction/real estate space have had declines in work orders and deteriorating margins, leading to an industry-wide reduction in valuations of late.

Signs are that 2017 may be more favourable for the Albertan economy, specifically. With forecasted

growth of 2%, compared with a contraction in 2016, and an increase in federal infrastructure spending, Bird Construction stands to gain from associated economic growth in its most sensitive geographical operating areas.

### **Company's backlog of work orders has declined substantially**

Largely due to the weakness in the western Canadian market, Bird Construction's backlog of projects has dropped from \$1.84 billion in Q3 2015 to \$1.33 billion in Q3 2016 (Q4 results to be released mid-March 2017).

This reduction in the company's backlog of projects, while anticipated by management, has presented investors with difficulty in forecasting future revenues and free cash flows, contributing to the stock's decline.

### **The good news**

This is a company with a fantastic balance sheet; Bird Construction's balance sheet shows a cash balance of approximately \$202 million, which is now more than half of its market capitalization. Deducting cash from the company's stock price, we can see that this is a stock that is trading at a severe discount relative to book value. Other large firms such as SNC-Lavalin do not carry nearly as much cash on their books and are trading at multiples much higher than those of Bird Construction.

The recent dividend cut and expected rebound in the economy of Canada's western provinces mean that Bird Construction is a company that can expect to see a big rebound in 2017 should management's expectations pan out.

Stay Foolish, my friends.

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