2 Beaten-Up Dividend-Growth Stocks With Strong Upside

Description

SNC-Lavalin Group Inc. (TSX:SNC) and **Stantec Inc.** (TSX:STN)(NYSE:STN) shares are trading near their 52-week lows, having declined 12.5% and 10.2%, respectively, year to date. The companies are in the construction and engineering industry, which has underperformed the market in the period.

Which of the beaten-down stocks is a better investment today? Let's first take a look at their businesses, profitability, and dividend history.

SNC-Lavalin Group

Since SNC-Lavalin was founded in 1911, it has become one of the leading engineering and construction companies in the world with offices in more than 50 countries.

It serves four key industries and generated 2016 revenue as follows: oil and gas (44% of revenue), infrastructure (29%), power (18%), and mining and metallurgy (9%).

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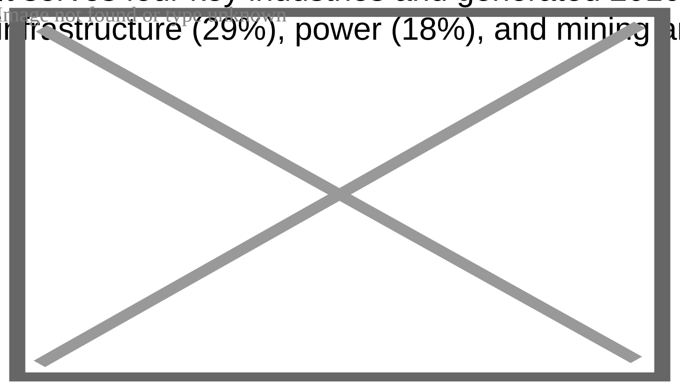

From 2011 to 2016, SNC-Lavalin grew its revenue at a compound annual growth rate (CAGR) of 3.3%, but its earnings per share (EPS) declined nearly 32% in those five years.

In the same period, its operating margins were between 2% and 8.9%. Comparatively, its operating margin in the last 12 months was near the midpoint at 5.2%.

Despite bumpy revenues and earnings, SNC-Lavalin has been shareholder friendly by raising its dividend per share (DPS) for 16 consecutive years. Its 10-year dividend-growth rate (DGR) of 14% is impressive.

However, the company's dividend growth has slowed down considerably in the last five years. Since 2012, it has increased its DPS by only 4-5% per year.

Stantec

Stantec has a focus in North America and is the third-largest construction and engineering firm there. That said, it also has some global operations. It is the 11th-largest globally and aims to be in the top 10.

From 2011 to 2016, Stantec increased its revenue at a CAGR of 20.6% and its EPS increased about eight-fold in those five years. In the same period, its operating margins were between 3.7% and 9.3%. Its operating margin in the last 12 months was near the low end at 4.9%.

Stantec has raised its DPS for five consecutive years. Its five-year DGR was 10.7%. Comparatively, its quarterly DPS is 11.1% higher than it was a year ago.

Which is a better buy?

Although Stantec's earnings seem to have launched into the stratosphere since 2011, it's not fair to say it is a better company than SNC-Lavalin. If we look at the period from 2013 to 2016, the companies would have switched places — SNC-Lavalin's earnings growth greatly outperformed Stantec's.

All that can be said is that their earnings and revenues are bumpy. That said, analysts clearly favour one over the other.

Eleven analysts at **Reuters** give SNC-Lavalin a 12-month mean price target of $65.30, which implies potential upside of 29% from about $50.60 per share; that's on top of the 2.1% yield it offers.

For Stantec, 10 Reuters analysts give it a 12-month mean price target of $37, which implies potential upside of 21% from about $30.50 per share; that's on top of the 1.6% yield it offers.

In summary, the construction and engineering industry isn't where one would look for yield. However, SNC-Lavalin seems to have more growth than Stantec in the near term, and it offers a roughly 30% higher yield.

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