Why Stantec Inc. Is up Over 8%

Description

Stantec Inc. (TSX:STN)(NYSE:STN), one of the world's leading providers of comprehensive professional services, announced its second-quarter earnings results this morning, and its stock has responded by soaring over 8% in early trading. Let's take a closer look at the quarterly results and the fundamentals of its stock to determine if we should consider buying in to this rally or wait for a better entry point in the trading sessions ahead.

The results that ignited the rally

Here's a quick breakdown of six of the most notable statistics from Stantec's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Gross revenue	$1,318.68 million	$1,046.64 million	26%
Net revenue	$891.49 million	$777.33 million	14.7%
Gross margin	$479.3 million	$416.91 million	15%
Adjusted EBITDA	$103.46 million	$84.64 million	22.3%
Adjusted net income	$57.95 million	$39.51 million	46.6%
Adjusted diluted earnings per share (EPS)	$0.51	$0.37	37.8%

Is the rally warranted, and can it continue?

It was an outstanding quarter overall for Stantec, and it capped off a great first half of the year for the company. Its gross revenue increased 44% to $2.59 billion, its net revenue increased 25.6% to $1.77 billion, and its adjusted diluted EPS increased 18.2% to $0.91. With these strong results in mind, I think the market has responded correctly be sending its stock soaring, and I think it still represents a great long-term investment opportunity for two fundamental reasons.

First, it still trades at very attractive valuations. Even after the 8% pop, Stantec's stock still trades at just 18.3 times fiscal 2017's estimated EPS of $1.87 and only 15.2 times fiscal 2018's estimated EPS of $2.25, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 29.5. These multiples are also inexpensive given its current earnings-growth rate, including the aforementioned 18.2% growth in the first half of 2017 and its projected 20.3% growth in 2018.

Second, it's a great dividend-growth play. Stantec pays a quarterly dividend of $0.125 per share, equal to $0.50 per share annually, which gives its stock a 1.5% yield. A 1.5% yield is far from high, but what it lacks in yield it makes up for in growth; the company has raised its annual dividend payment for four consecutive years, and its 11.1% hike in February has it positioned for 2017 to mark the fifth consecutive year with an increase, and I think its very strong financial performance will allow this streak to continue into the 2020s.

With all of the information provided above in mind, I think Foolish investors should consider initiating long-term positions in Stantec today with the intention of adding to those positions if the stock pulls back in the weeks ahead.

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