Why Stantec Inc. Shares Have More Upside Even After its 9% Rally

Description

Stantec Inc. (TSX:STN)(NYSE:STN) is a $3.9 billion market capitalization company with $3.5 billion in revenue in the last 12 months. The company 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.

Here's why I believe the shares still have upside even after August 9th's rally:

Good track record

The company has grown from revenue of $1.6 million in 2012 via organic growth as well as through acquisitions, as it has continued to expand into new businesses and geographies.

During this time period, the stock has appreciated 141%, while at the same time returning cash to shareholders through its dividend.

In the consulting business, competitive advantage is based on track record and reputation. Stantec is at an advantage in both these areas, as it has strong client relationships with a commitment to design with community in mind: "Working together with the community in order to help improve quality of life through its involvement in different projects."

Earnings beat

After a couple of disappointing quarters, the second-quarter 2017 results that were released yesterday saw the company post EPS of $0.51, which is more than 13% higher than consensus expectations and a 37.8% increase compared to the second quarter of last year.

Strong return to organic growth

Net revenue increased 14.7%, and organic growth came in at 4.5%. In fact, the company reported robust organic growth in many of its business segments, such as its Buildings segment (23% of revenue), which reported organic growth of 5.1%, the Infrastructure segment (27% of revenue), and the Water segment (23% of revenue), which reported organic growth of 4.6% and 4.1%, respectively.

And while the Energy and Resources segment (11% of revenue) decreased 11.8%, there are some early signs of strengthening here, and Stantec is well positioned for the eventual strengthening of the oil and gas, mining, and power markets.

Diversification

Stantec offers diversification in terms of business segments and geography. It's in five different segments and across six continents.

Strong guidance

Looking ahead, management is targeting a long-term revenue CAGR of 15%, which has some visibility due to the company's strong backlog of $3.9 billion. This will be achieved via organic growth and continued acquisitions.

Strong balance sheet

The company's balance sheet is very healthy with a debt-to-total-capitalization ratio of 30%, and $203 million in cash on hand as of the end of the second quarter, setting the company up to easily continue with its growth and expansion to further capture market share.

The shares currently have a dividend yield 1.45%. The quarterly dividend was increased from $0.1125 to $0.125 recently, and the payout ratio is currently 24.5%.

In my view, Stantec is a quality long-term investment. Investors would do well by adding it to their portfolios.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:STN (Stantec Inc.)
2. TSX:STN (Stantec Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/01
Date Created
2017/08/14
Author
karenjennifer