This Dividend-Growth Stock Could Jump 50%: Should You Buy?

Description

Aecon Group Inc. (TSX:ARE) stock has rebounded strongly in late August, following a very dismal performance in the previous 12 months. Should investors take this dividend-growth stock seriously?

Before we discuss what's causing this sudden reversal in the fortunes of Aecon stock, let's find out what this company does.

Aecon is Canada's largest publicly traded construction company, providing a range of services its three core segments: infrastructure, energy, and mining.

Aecon has been involved in some of the nation's landmark construction projects, including the CN Tower, the St. Lawrence Seaway, the Vancouver SkyTrain, and the Halifax Shipyard.

What's the latest?

Aecon stock skyrocketed 25% on August 25 after the firm disclosed that it has hired advisors to explore a potential sale.

"The company confirms that it has engaged **BMO Capital Markets** and **TD Securities** to explore a potential sale of the company. Any transaction would be intended to create shareholder value and enhance the company's capabilities and growth potential," the company said in a statement.

This price action has almost wiped out the losses of the past year on rumours that the company could attract interest from Chinese companies.

Aecon has been struggling to show a robust growth in its earnings. In 2016, for example, its net income plunged 40% to ~$40 million.

Revenues during the past five quarters also showed a declining trend, falling 22% in the second quarter when compared to the same period a year ago.

This poor performance is probably the reason that forced the company to seek strategic options with an activist investor Eric Rosenfeld of New York-based Crescendo Partners now sitting on Aecon's board.

Is Aecon stock a buy?

The latest developments suggest that there's a good possibility of Aecon striking a sale deal. Despite uneven growth in its profitability, Aecon is a great infrastructure brand in Canada.

With the nation's economy growing at the fastest pace in the developed world and the Liberal government's push to spend $35 billion on infrastructure projects, Aecon is well positioned to benefit from these positive developments.

Analysts on average have $20 a share price target, while Maxim Sytchev, a Toronto-based analyst with **National Bank Financial**, estimates Aecon could be worth ~$25 a share in a takeover based on recent transactions in the sector. That means a 47% premium to Aecon's $17 a share price at the time of writing.

For dividend investors, Aecon also provides nice growth in the payout each year. With a dividend yield of 2.94%, Aecon pays $0.125 a share quarterly dividend, which has grown about 16% on average each year since 2013.

Bottom line

Even if Aecon potential sale doesn't go through, the stock provides good growth potential to long-term investors who want to add a purely Canadian infrastructure name to their portfolios. The current economic trends suggest that Aecon will be able drive significant growth from its project pipeline.

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Author

hanwar