



Is it Too Late to Benefit From Aecon Group Inc.'s Potential Sale?

Description

When **Aecon Group Inc.** ([TSX:ARE](#)) announced August 25 that it was putting itself up for sale, its stock jumped 20.2% on the news. Since then it's flatlined, as if that's about the extent of its M&A rally.

Naturally, if you don't own shares of Aecon's stock, you're wondering if there's more upside left in its share price. Conversely, if you do own its stock and have for some time, you're wondering if it's time to cut and run or if there is a juicy +\$20 offer just around the corner.

That's the million-dollar question.

Here are my two cents on both sides of this conundrum.

You don't own Aecon stock

Thanks to the company's big announcement, Aecon stock is now up 12.3% year to date with \$20 a real possibility if enough suitors come forward and create a bidding war.

Could it happen? Absolutely. Will it? That depends on who's interested and why they'd spend \$1.5 billion (enterprise value) or more to buy the construction company.

Aecon's all-time high was \$23.30, which it achieved in 2008. Since then, its next highest price was \$19.19 in 2016.

In 2008, Aecon had an operating profit of \$89 million on \$1.9 billion in revenue. In 2016, it had \$87 million in operating profits on \$3.2 billion in annual sales. It had the same operating profits this past year on 68% more revenue.

So, why did Aecon's operating margins fall by 229 basis points from 2015 to 2016? The answer to that will tell you how eager others are to buy its business.

It turns out that the company had a one-time gain of \$48.8 million in 2015 from the sale of its interest in the Quito, Ecuador, airport concession. Add in another \$11.1 million from its share of operating profits

at the airport and another \$14.1 million gain from the sale of its Innovative Steam Technologies Inc. (IST) subsidiary, and the operating profit in fiscal 2016 improved by 23.7% from \$70.4 million in 2015.

AltaCorp Capital analyst Chris Murray sees strong buyer interest from companies Aecon has worked with in the past both in the U.S. and overseas.

From where Murray sits, \$20 could be a real possibility.

If you do own the stock

Let's say there is a \$20 bid out there. That means the acquirer is willing to pay \$1.5 billion for Aecon, including the assumption of \$336 million in net debt.

Analysts expect Aecon to earn \$1.09 per share in 2018. At \$20, we're talking about 18 times earnings. That's about the same multiple as both **Stantec Inc.** and **SNC-Lavalin Group Inc.**, its bigger Canadian peers.

Therefore, given Aecon's iconic history in Canadian construction, I don't think it's unrealistic to imagine a \$20 offer hitting the table.

The bigger question for shareholders is whether they should immediately sell upon news of a \$20 offer, avoiding merger arbitrage, or to hang in there until the very end when they are paid for their shares, and they are permanently cancelled.

Either scenario looks promising

Unless I'm missing something, the likelihood of another 20% increase in Aecon's share price appears to be a certainty.

If you don't own Aecon shares, I would consider buying under \$17.50. If you do, I would wait to see how this plays out.

Either way, I don't see how it doesn't hit \$20.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ARE (Aecon Group Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/07/05

Date Created

2017/09/08

Author

washworth

default watermark

default watermark