Growth Investors: This Company Has Tripled its Sales in 4 Years and Could Grow More!

Description

WSP Global Inc (TSX:WSP) offers a wide range of professional services, including highway and road design, structural engineering, asset management, and many others. The company has been able to grow and expand its services through acquisitions, and year to date, WSP has already acquired six different companies.

Most recently, WSP acquired Leggette, Brashears and Graham, Inc, a company of just 150 employees that offers groundwater and environmental engineering services. The benefit of these acquisitions is that it makes it easy for the company to grow its sales and services, but the challenge is integrating all these different companies under one umbrella and making sure synergies are created rather than redundancies.

Year to date, the stock has gone up 17% in price. I'm going to see if it is a good buy today.

Despite strong gross margins, the company's bottom line does not have much left over

In 2016, WSP recorded revenue of $6.3 billion, which was up just 5% from the previous year. However, since 2013, the company has seen sales more than triple. If there is one downside, it is that despite averaging strong gross margins of 77% in the past four years, the company's profit margins have hovered around only 3%.

The company's selling, general, and administrative (SG&A) expenses have made up 90% of WSP's gross margin in the past four years. This is perhaps a bit unsurprising, given the many acquisitions the company makes every year. WSP is likely spending much more on its SG&A than it needs to, but the process of removing inefficiencies and cutting costs in this area of the income statement takes time — something that is hard to find when a company is heavily focused on acquisitions.

In WSP's most recent quarter, the company saw an 11% increase in sales, while profits jumped by more than 20% year over year.

Not a stock to buy for the dividends

Dividend investors should look elsewhere because with a dividend of less than 3% which has not seen any growth, there are many better options out there for generating dividend income.

The stock may be appealing to value investors

Currently, the stock price trades at 23 times its earnings, and that is less than peers, like **Stantec Inc.** (TSX:STN)(NYSE:STN), which trades at 33 times, and **Snc-Lavalin Group Inc.** (TSX:SNC), which is at a multiple of 31. In addition, WSP trades at only 1.8 times its book value.

Should you buy the stock?

Although the share price has increased 132% in the past five years, I'm hesitant to invest in companies that grow mainly through acquisition. A company that is constantly in acquisition mode is likely incurring a lot of expenses and inefficiencies along the way. The company's profit margin is also very low and leaves a lot to be desired given WSP's strong gross margins. Being a service-based organization, WSP should be able to produce much stronger profits than it has thus far, especially given its strong sales growth.

For those reasons, I would avoid the stock, but if there is a dip in price, it could make an appealing value investment in the short term, as it is not expensively priced when compared to its peers.

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