Ride the Momentum or Buy the Dip? Winpak Ltd. vs. Stantec Inc.

Description

The S&P/TSX Index climbed 130 points to finish the week on February 23. The TSX has managed to recoup some of its early 2018 losses in the past two weeks in spite of some less-than-stellar data. An employment survey from Statistics Canada estimated that 88,000 jobs were lost in January — the worst numbers since 2009. December retail sales numbers were also disappointing compared to the previous year, which sent the Canadian dollar plummeting.

In spite of the bad news, there are still a number of great individual stories on the TSX that should draw the attention of investors. Today, we will compare two companies whose stocks went in opposite directions following fourth-quarter earnings.

Winpak Ltd. (TSX:WPK)

Winpak is a Winnipeg-based company that is engaged in the manufacturing and selling of packaging materials and packaging machines. This is typically used for the packaging of perishable foods, beverages, and in healthcare applications. Winpak stock spiked 11.53% on February 23. The company released its 2017 fourth-quarter and full-year results in the late afternoon on February 22.

Total revenue grew 7.8% to $886.7 million in 2017 compared to $822.5 million in the prior year. Net income climbed to $122.7 million in comparison to $108.2 million in 2016. The extra week recorded in 2017 resulted in a 1-2% jump in sales volumes and net income reported. Over 80% of the company's growth was seen in the rigid container and modified atmosphere packaging products.

Winpak leadership expects continued growth in 2018, though at reduced levels than those seen in most recent years. The company also declared a modest dividend of $0.03 per share, representing a 0.2% dividend yield.

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

Stantec is an Edmonton-based professional services company that specializes in infrastructure and facilities for private- and public-sector clients. Stantec stock fell 1.84% on February 23 and has declined 8.9% in 2018 thus far. The company released its 2017 fourth-quarter and full-year results on

February 22.

Gross revenue rose 19.5% to $5.14 billion compared to $4.3 billion in 2016. Adjusted net income increased 11.5% to $202 million, and EBITDA climbed 26.1% to $424.1 million. Stantec raised its dividend 10% to $0.14 per share, representing a 1.7% dividend yield. In spite of this, Stantec shares were hammered to finish the week.

This was largely due to Stantec missing steep analyst expectations. However, the recent dip could present an attractive buy-low opportunity. Almost half of Stantec's revenue comes from south of the border. The company could win big from an aggressive infrastructure spending package that is being pushed by the Trump administration, as well as the Tax Cuts and Jobs Act that slashed corporate taxes from 35% to 21%.

Which stock should you buy right now?

I like Stantec after its precipitous late February drop following Q4 earnings. In addition to its growth potential, it also offers a superior dividend for investors on the hunt for income.

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