Don’t Buy This Dividend-Growth Stock, at Least for Now

Description

Aecon Group Inc. (TSX:ARE) stock has been surrounded by a lot of uncertainty since it announced a takeover deal by the China Communications Construction Co. in October last years.

This takeover bid by Chinese conglomerate immediately came under attack by the company’s competitors, triggering a Canadian government national security review under a section of the Investment Canada Act that allows the government to block deals that could be “injurious to national security.”

Since the review was announced last month, Aecon shares have fallen about 7% to $18.56 at the time of writing, pushing the shares to their lowest level relative to China Communications’s offer price of $20.37.

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 at stake?

According to some analysts, including Chris Murray, managing director of institutional equity research at AltaCorp. Capital Inc., the primary concern of the federal government may be with Aecon’s telecom infrastructure group, and that could lead to the possibility of a conditional approval that involves spinning off part of the company.

If a divestiture is required, it would most likely be Aecon’s telecom business, which generates annualized revenue of about $150 million.

The majority of analysts, however, remain positive that the government will ultimately approve the deal with some modifications, given that the liberal government of Prime Minister Justin Trudeau has never flatly blocked a proposed deal.

This deal is crucial for Aecon, which has been struggling to show a robust growth in its earnings. In the quarter that ended in December, for example, its sales plunged 19%, and net income dropped 27%.

This poor performance is the main 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 considerable uncertainty about the final structure of the deal. The stock has already peaked since I recommended it in September last year. I don't think there is a potential for a huge gain beyond the bid price of $20.37 in the short run. In fact, the risk of sell-off is greater at a time when we don't know the outcome of the government's review.

I think investors are better off waiting on the sidelines until the government review is complete. Once this uncertainty is out of the way, then you can take a long-term position in this dividend-growth stock. The company pays $0.5 a share annually, which has grown about 11% on average each year since 2013.

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