Is it Time to Exit Aecon Group Inc.?

Description

Aecon Group Inc. (TSX:ARE) is a Canada-based construction and infrastructure development company that operates through four segments: infrastructure, energy, mining and concessions. A company with a rich history, Aecon is one of Canada's leading companies in the industrial sector. In August of 2017, the company announced that it had engaged BMO Capital Markets and TD Securities to look into a possible sale of the company. The company's share price jumped about 20% on the news, rising from $14.34 to $17.24 at the time of writing. The company's second leg up came in October, when Aecon announced that it had agreed to be bought by China's CCCC International Holdings Limited (CCCI) for $1.19 billion at $20.37 per share in an all-cash deal. At the time of the deal, Aecon pointed to the benefits of CCCI's size and financial strength, which would offer the company more opportunity to bid on global infrastructure projects. The friendly deal was expected to close in the first quarter of 2018.

The acquisition began with plenty of momentum, quickly receiving two regulatory permissions required to be sold to a Chinese state-owned company. In mid-December, Aecon shareholders voted overwhelmingly in favour of the agreement. All appeared to be going well until the federal Cabinet ordered a deeper security review of the proposed takeover. According to Karl Sasseville, spokesperson for Economic Development Minister Navdeep Bain, "there is potential of injury to national security." In response, the company and CCCI have mutually agreed to extend their agreement to March 30 from February 23.

Amidst the uncertainty, the company's share price has been slowly trending downwards, losing 7.54% of its value since the security review. Although the company is still trading well above the level when it first announced the deal, it is currently trading at a 12% discount to its takeover offer of $20.37. What's an investor to do? Investors who sold out back when the deal was announced have done very well for themselves. At this point, those still holding or looking to start a position are betting on the deal being approved by the federal government.

The deal has slightly inflated Aecon's valuation, and if it fails to pass, investors should expect its share price to experience downward pressure. That said, even if the deal didn't go through, the company is reasonably valued. It is trading at a forward price-to-earnings ration of 17, its price-to-sales ratio is a tiny 0.38 and it's trading at a price-to-book of 1.39, which is significantly below the industry average. Likewise, its enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA) of 9.1 is also below industry averages, which signifies that the company is actually undervalued.

Lock-in your profits or hold for the long-term

It would disappointing to see the federal government block the acquisition, which would probably lead to short-term pressure on the stock. However, the company is well run and attractively valued over the long term. Aecon is also a nice income play, and is a Canadian dividend aristocrat with six consecutive years of dividend increases. Investors with a short-term outlook should consider locking in their gains. Long-term investors can be reassured knowing that either the deal will pass or the company will continue to perform for years to come.

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