2 Takeaways From the Scuttled Aecon Group Inc. Sale

Description

On May 23, the Canadian federal government confirmed that it had blocked the sale of **Aecon Group Inc.** (TSX:ARE) from the Chinese firm CCCC International Holdings Ltd. — a deal that would have been worth $1.5 billion. The government cited national security in blocking the sale, which raises key questions about the future of Canadian economic policy going forward, and, naturally, the future of Aecon Group. Today I want to explore my two takeaways from the deal, and how I think investors should respond.

Aecon Group is oversold in the aftermath

Aecon Group stock is down 15.1% week-over-week as of close on May 25. Shares of the company have dropped 24.9% in 2018 so far. The blocking of the deal is a disappointment, but that does not mean investors should turn away from an opportunity to buy-low on Aecon today. Fool contributor Mat Litalien recently pointed out the upside that Aecon provides to investors. Aecon released its first-quarter results on April 25.

Aecon reported a backlog of $4.6 billion as at March 31, 2018 in comparison with $4.2 billion as at December 31, 2017. The company reported that it had been awarded $910 million in new contracts in the first quarter compared to $836 million in Q1 2017. Gross profit fell to $47 million compared to $51 million in the prior year, and adjusted EBITDA was posted at $3.7 million. However, adjusting for one-time items related to severance costs and expense incurred as a result of sales processes adjusted EBITDA would have reached $7.8 million over $6.9 million posted in the previous year.

Aecon also offers a dividend of $0.125 per share, representing a 3.3% dividend yield.

International trade tensions continue to heat up

The three national parties in Canada all supported the Liberal government's decision to block the Aecon sale, a rarity in this political climate.

Back in March, I'd discussed the emergence of rival economic blocs, specifically U.S.-led North America and a China-led East Asia. Trade negotiations between the U.S. and China appeared to stall in May, with both countries coming away without a concrete path forward in recent talks. However, the ongoing trade spat did claim the Chinese telecom firm ZTE as a victim. It announced the cessation of operating activities following the seven-year ban imposed by the Trump administration on sales of U.S. components to the company.

President Trump, who has branded himself a hawk on trade, seemed to walk back his rhetoric in a tweet that suggested he was working with Chinese President Xi Jinping to save jobs in China. Leading Republicans and Democrats pushed back forcefully in the form of a signed letter insisting that there must be no easing on controls. “We strongly urge you to reject any proposal by China to loosen existing restrictions on the export or other transfer of sensitive U.S. technologies,” the letter stated. “Any such move would bolster China’s aggressive military modernization and significantly underline long-term U.S. national security interests.”

The bipartisan push to establish a more aggressive trade front against China is evidence that rising protectionism is not a function of so-called “Trumpism.” The near-unanimous praise of the blocking of the Aecon deal from broad sections of the Canadian ruling circles thereby demonstrates that Canada is eager to be inside the “walls” of the U.S., as suggested by *The Globe and Mail* in the aftermath of the 2016 U.S. election.

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
2025/07/06
Date Created
2018/05/28
Author
aocallaghan