



Time to Buy This Beaten Down Construction Stock

Description

Poor performance is a relative thing. Take **Bird Construction Inc.** ([TSX:BDT](#)), for example.

It's down 27% year to date through June 28, yet it could always be worse. Out of 520 TSX-listed stocks with a market cap greater than \$100 million, there are 52 with bigger YTD losses.

That's no small comfort if you bought the construction company's stock at its 52-week high of \$10.40, but it's a helpful reminder that there will always be someone doing better than you and someone doing worse.

I moved to Halifax in February. Every day since then I've walked past the Department of National Defense's Willow Park installation of the Canadian Forces Base in Halifax. Plastered everywhere are Bird Construction signs reminding me who is building the new \$66 million armoury that will be home to the 36 Service Battalion, the 36 Signal Regiment, and the 33 Field Ambulance.

Almost ready to open its doors, an article I read earlier in June about Bird's stock experiencing a negative price momentum — it's down more than 10% in the past week alone — made me take a closer look at the company's financial situation and whether the hit to its stock is warranted or not.

Here's the positive news

The company announced its first quarter results in early May. While both the top- and bottom-line declined in Q1 2018, it did manage to secure \$405.2 million in new contracts in the quarter, thereby increasing its work backlog by 9.3% from Q4 2017 to \$1.3 billion.

During the quarter, it substantially completed the East Rail Maintenance Facility, a public private partnership (PPP) that will serve as Go Transit's major maintenance and repair facility as the Southern Ontario regional transit authority expands its reach in the GTA.

Getting the PPP project completed is a big deal for Bird because it shows that it can execute on intricate projects involving multiple stakeholders, which should lead to future PPP projects.

In December, Bird announced that it was part of a consortium of companies that won the bid to build Bruce Power's office complex in Kincardine, Ontario. The 129,000 square foot building is for 500 employees to work and train as the Bruce Power nuclear reactors are refurbished keeping the power generation facility online through 2064.

Here's the bad news

Fool contributor Ryan Goldman had a lot to say about Bird back in 2017, some of it not very encouraging. He was especially concerned about the [dividend cut](#) that took effect with the February 2017 payment reducing its payout by 49% from \$0.76 annually to \$0.39.

Bird paid out dividends in 2017 equal to 144% of its net income. Anytime you pay out more than you earn, it's not a healthy sign. It's definitely not something you want to see happen very often, yet the company has done this in four of the last five years.

If you depend on your dividend income to live on, Bird isn't for you. For those that do live on their dividend income, you might consider **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)), one of the many affiliates of **Brookfield Asset Management Inc.** ([TSX:BAM.A](#))([NYSE:BAM](#)) BIP yields 3.7% and possesses a [cash flow](#) that is considerably more stable than Bird's.

The verdict on Bird Construction

This is not a stock you want to buy if you need the money in the next 2-3 years. It's experienced a serious hit to both its gross and operating profit margins — operating margin is now under 1% compared to its decade high of 8.8% in 2009 — and still faces uncertainty about whether it can return to more normal profit margins.

That said, Bird hasn't traded this low since March 2009, when every stock on the continent was in the cellar. Aggressive investors might want to take a small position and add to it as positive news provides a catalyst for moving higher.

Everyone else ought to buy a marijuana stock if you want to speculate.

CATEGORY

1. Investing

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2. NYSE:BN (Brookfield Corporation)
3. TSX:BDT (Bird Construction Inc.)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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Date

2025/08/18

Date Created

2018/07/03

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