Think Trade Rhetoric Is Just Talk? Go Global With Stantec Inc. (TSX:STN)

Description

Fear over trade and tariffs have impacted the stock markets in recent months. Investors are dumping internationally operating stocks, driving the prices of global companies down to attractive levels. As is always the case with investor emotions, these blips can create opportunities for long-term investors.

One of the major themes over the last few years was the need for infrastructure spending. Infrastructure, such as waste and water networks, needs to be expanded and repaired. Crumbling roads and bridges also need to be serviced. While these needs are just as prevalent as they were last year, this appears to have been forgotten in the midst of trade fears.

Stantec Inc. (TSX:STN)(NYSE:STN), a Canadian infrastructure company, has worldwide operations and is seeking to expand its presence abroad through acquisitions and organic growth initiatives. The company achieved its goal of becoming a top 10 global infrastructure firm and continues to build its global operations.

The company has two main operating services: Consulting Services and Construction Services. These units are broken down into five business operating units: Buildings, Energy & Resources, Environmental Services, Infrastructure, and Water. In addition to its global presence, these operating units provide a significant amount of business diversification to the company, so a downturn in any one segment will not materially affect the overall company.

The company made two acquisitions in the first quarter to help expand Stantec’s global operations: ESI Consulting Ltd., a United Kingdom-based design firm which focuses on environmental engineering, and Occam Engineers Inc., a southwestern United States firm. The company remains committed to looking for more acquisition opportunities with other potential buyout candidates already being assessed.

Stantec reported decent earnings in Q1 2018. Revenue grew in all segments, with net revenue up almost 1% year over year. Organic net revenue alone contributed an increase 1.7% to the overall revenue growth. The increase in revenue was a result of both organic growth and growth through acquisition.

Net income was up 163%, although this was primarily due to a tax-related loss in Q1 2017. Nevertheless, earnings were positive. The company has a decent balance sheet, considering the number of acquisitions it makes. Cash on hand could easily cover any short-term debt, and long-term debt obligations are covered by free cash flow.

The company has paid the dividend for several years and has raised it every year since its inception. Stantec pays a small dividend of 1.5% at current prices, which includes a recent 10% raise. The company maintains a low payout ratio of between 30% and 40% of earnings, leaving the dividend relatively safe. As the company continues to grow its earnings, future dividend increases also remain a possibility.

Now, when I talk about short-term blips affecting these stocks, I want to be clear that I do not necessarily mean weeks or months. I am talking about long-term investing, where you are looking to hold investments for years. Companies like Stantec may continue going down over the coming years, and tariffs may continue to negatively impact the company over that time. But if its strategy and financials remain strong over the decades to come, this company will likely continue to perform very well.

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