4 Reasons Why This Stock Has More Upside

Description

Aecon Group (TSX:ARE) stock traded as high as $20 per share when news came out that a Chinese company wanted to acquire it for $20.37 per share. When the Chinese company failed to acquire the construction and infrastructure development company, the stock retreated to $14 and change per share.

A few months later, the stock has moved steadily higher — up about 17%. Here's why there could be more upside to the stock.

Strong access to capital

Aecon Group's enterprise value is about $1.2 billion. In the last week or so, it had no problem raising $184 million of capital from the market via 5% convertible unsecured subordinated debentures that are due at the end of 2023.

With the money raised, Aecon Group can grow the business as needed. Notably, though, the debentures can be converted to stock, which may dilute current shareholders if the capital raised isn't used intelligently.

Strong backlog of projects

Aecon Group and its joint-venture partner just won a $526 million contract to help build a part of **TransCanada**'s Coastal GasLink Pipeline in British Columbia. The project is underpinned by LNG Canada, a joint-venture company that consists of global LNG leaders: **Shell**, **PETRONAS**, **PetroChina**, Mitsubishi Corporation, and KOGAS.

Aecon Group expects to start working on the project in mid-2019, with construction expected to start in July 2020. It anticipates substantial completion by late 2021 and final completion by the end of 2022.

Aecon Group's backlog of about $6.4 billion, at the end of June, was already at a five-year record high. Since it has a 50% interest in the joint venture, the Coastal Gaslink Pipeline project will add another $263 million to its backlog. This should lead to above-average growth over the medium to long term if the backlog projects are executed well.

Balance sheet improvement

Aecon Group is selling its capital-intensive contract-mining business to **North American Construction Group** for $199.1 million in cash. This should help improve Aecon Group's balance sheet, which is currently more debt heavy than its peers, such as **Badger Daylighting**. Selling the contract-mining business will allow Aecon Group to focus more on its core businesses and its backlog of projects.

Decent valuation and dividend

At $17.31 per share as of writing, Aecon Group trades at a forward price-to-earnings multiple of about 16.2, while the company is estimated to grow its earnings per share by 10-20% per year for the next two years.

The analyst consensus from **Thomson Reuters** has a 12-month target of $19.90 per share on the stock, which represents near-term upside potential of about 15%. A two-year target of about $23 per share or upside of nearly 33% is possible.

Aecon also offers a dividend yield of 2.9%, which adds to the total returns.

Investor takeaway

Aecon Group has a strong backlog of projects that should spur growth for the next two years and beyond. Moreover, the sale of its contract-mining business will allow it to improve its balance sheet. The decently valued stock has upside potential of 15-33% over the next one to two years, while paying an initial dividend yield of 2.9%.

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