Is Infrastructure Investment Dead? If Not, These 2 Stocks May Be Ripe for Picking

Description

It seems like now would be a good time to start revisiting infrastructure stock investments. These international companies have been hammered in recent weeks by tariffs, trade talks, general market weakness. Should investors be looking into these sectors again, or would it be better to stay away until there is more clarity as to the future of the global economy?

There will be some sort of an impact on infrastructure companies, since many of their inputs, such as steel and aluminum, will increase the overall cost of many of its projects. It's pretty hard to build roads, buildings, and transit without using steel and aluminum. The increase in costs could reduce the willingness of companies and governments to build and may result in contract cancellations, or at the very least will reduce the amount earned on projects.

The real question is whether or not these companies have the financial strength to survive these market downturns. If they are significantly strong enough to make their way through the short-term noise, they may be excellent investments right now. Two of the best infrastructure companies in Canada, **SNC Lavalin Group** (TSX:SNC) and **WSP Global** (TSX:WSP) might be excellent investments once we have navigated these turbulent times.

SNC Lavalin Group

SNC's stock price has been hit hard once again. The company navigated the 2015 scandal quite well and came out a stronger entity but is once again feeling the pain on its stock price with rising rates, trade disputes, and tariffs taking their toll.

While it is yet to be seen what the future impact will be on earnings, the current earnings are not that bad. Revenues increased 32% year over year in the second quarter of 2018. Adjusted EBITDA more than doubled over the same period and adjusted net income was up 77%. Overall, this paints a positive picture for the future. The dividend, currently at 2.5%, continued its trend of steady increases with a 5.1% hike announced in February of this year.

WSP Global

While WSP's stock has not been hit quite as hard as SNC's, it does face potential headwinds in the future due to the factors already mentioned. WSP is an international company with a solid backlog of upcoming projects. WSP's backlog increased by 14.4% over the previous year, giving it a good buffer of upcoming income if times turn increasingly tough.

WSP had a successful second quarter. Revenues increased by 18% year over year. Its earnings also increased by 7.3% over the same period. All in all, the company's financial picture looks pretty good at the moment. It pays a 2.27% dividend, which is currently fully supported, but unlike SNC, the company has not raised its dividend regularly over the years.

Wrapping it up

WSP and SNC have performed well over the last year. While there is little doubt that tariffs and trade issues will end up having some negative effect on infrastructure businesses or earnings, their long-term track records seem to warrant a purchase. These companies, especially SNC, have faced issues in the recent past, but have remained strong in spite of their struggles.

It is reasonable to assume that they will remain resilient through their current challenges as well. That being said, there may be further downside in the near term, so there is no rush to establish a full position at this time, but easing into a position over the next few months might be a good idea.

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