Buy This Long-Term Value Creator at Bargain Prices Today

Description

The $3.8 billion **Stantec** (TSX:STN)(NYSE:STN) is a high-quality company with a good track record, a long-term history of prudent capital management, strong ROEs, and strong free cash flow generation.

The company provides professional consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, environmental sciences, project management, and project economics for infrastructure and facilities projects.

And while recent earnings and cash flow results have been disappointing, the company's five-year compound annual growth rate (CAGR) in revenue is 22.4%, its five-year CAGR in backlog is almost 30%, and its five-year CAGR in dividends is almost 13%.

There has been pressure in the construction business, driving down cash flows and, ultimately, the stock price.

Stantec stock price has been nothing to write home about. It's just been very unimpressive. The stock has been volatile, heading nowhere fast, and is pretty much trading at the same level as it was five years ago — a stark contrast to the potential of the company's financial and fundamental performance in the long term.

Yes, there have been missed expectations and downward revisions to guidance, but these are short-term growing pain issues. Here is why investors should see this as a buying opportunity:

The company operates across diverse geographic regions, specializations, and phases of the infrastructure and facilities life cycle.

The 2016 $1 billion acquisition of MWH Global, which was financed with equity (55%) and debt (45%), was a big acquisition that put strain on Stantec, but brings many key long-term advantages.

So, this short-term pain can be viewed as worth it, because of the long-term gain that should be coming.

MWH offers Stantec two big positives.

The first is that it extends its global reach outside Canada and the U.S., taking its revenue from international markets to more than 20% of total revenue, up from roughly 3%.

The second is that it gave Stantec global expertise in the water sector — a sector that will thrive going forward, as this natural resource is scarce worldwide and needs to be managed properly.

Stantec will continue to grow via acquisitions as well as organically, as it has done in the past.

Its balance sheet has been markedly improved since the MWH acquisition, as the debt-to-equity ratio has been taken down from 41% to the current 35%. We can expect continued improvements, as the company uses its free cash flow to pay down debt further.

With a growing international and industry presence, we can see that this company is on its way to the top.

2019 should be a big year for the company and the stock, as the integration of MWH bears fruit and dramatically increases the combined company's cash flow and earnings-generation capability.

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