



This Construction Stock Is a Must-Buy!

Description

As Alberta's economy recovers, certain industries are poised to benefit from this. One of the biggest industries in Alberta is the oil sands. Luckily for you, **North American Construction** ([TSX:NOA](#))([NYSE:NOA](#)) is well positioned in this industry.

The company provides a range of [mining and heavy construction services](#) primarily in Western Canada. Although the success of this company hinges on the oil and gas industry, there is every indication that it will deliver good returns for investors.

North American Construction is a solid company based on its increasing net incomes and its debt repayment.

Increasing net income

I'm not going to beat around the bush when it comes to North American Construction's net income. The company experienced a net loss in fiscal 2014, 2015, and 2016 before returning to profitability in fiscal 2017.

From fiscal 2016 to fiscal 2018, the company's net income increased from -\$0.44 million to \$15 million, and the interim statements in fiscal 2019 indicate net income of \$40 million for the year. The [company's acquisitions](#) will help bump up its net income as well.

As I mentioned above, the success of the company is largely tied to the performance of the oil and gas industry. According to the Government of Alberta, the oil and gas industry produced \$79.2 billion in revenues in fiscal 2018, which is up 10% from the previous year.

Further to this, the industry employed 124,000 employees in fiscal 2018, which is up from 96,000 in fiscal 2016. This is a strong indication that the construction industry is experiencing significant growth.

The increase in industry-wide revenues and employment indicates that Alberta is well on track to surpass previous highs, which ultimately means a stronger performance for companies that support the

industry.

High operating cash flow

The company has a very competent management team, as indicated by its debt repayment.

Debt carries interest payments with it, which means a company that borrows hundreds of millions of dollars will often have to pay millions of dollars in interest each year.

North American Construction has repaid its debt in each of the past five fiscal years with the lowest amount being \$50 million and the highest amount being \$121 million.

The company has paid off \$408 million in debt while borrowing \$458 million. This results in a net debt borrowing of \$50 million over the past five years, which is not a significant amount given the size of the company.

Bottom line

As Alberta's economy recovers along with the oil and gas sector, investors will be generously awarded by investing in North American Construction.

Given the company's close ties with Western Canada's oil industry, the returns on this stock can be significant. The company's net income is fluctuating over the past five fiscal years, but from fiscal 2016 onward, it is steadily increasing.

Its high operating cash flow indicates that management is very competent, and with net borrowings of \$50 million over the past five years, investors will be thrilled that the company is not squandering money on interest payments.

If you have an appetite for risk, this may just be the ideal stock for you.

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