



Bear Market 2020: Invest in This Canadian Domestic Giant for Limited Downside

Description

With the threat of the coronavirus hanging large over the global economy, it's time to look at stocks that don't have a sizeable exposure to global markets. **Aecon Group** ([TSX:ARE](#)) is a construction giant in Canada that has been around for 140 years and is one of the most trusted names in the business.

I had written [about Aecon at the end of January 2020](#), projecting an upside of 40% in this year. The stock was trading at \$17.57. Since then, the stock has declined 18% to current levels.

Solid 2019 numbers

Aecon announced its fourth-quarter and full-year results for 2019, and from all accounts, it looks like the stock is well placed for 2020. The company has a huge backlog of orders worth \$6.8 billion, which will drive top-line growth this year. Analysts expect its 2020 revenues to be 6% higher than its 2019 revenues of \$3.46 billion.

For 2019, Aecon's revenues was up 6% year over year. Adjusted EBITDA for 2019 came in at a record \$222 million. The EBITDA margin stood at 6.4% and rose by \$15 million in 2019 compared to EBITDA of \$207 million in 2018. Operating profit of \$107.3 million for the year ended December 31, 2019, increased by \$17.9 million compared to an operating profit of \$89.4 million in 2018.

Aecon increased its quarterly dividend to \$0.16 per share from \$0.145 per share. This was the company's eighth dividend increase in the last nine years.

Construction revenue of \$3.4 billion in 2019 was \$206 million, or 6% higher than the same period last year. This increase was driven by higher revenue in civil operations and urban transportation systems in both Eastern and Western Canada.

Aecon's outlook for 2020

The fourth quarter of 2019 saw Aecon's profits drop 28%, but the company also scored three major

contracts worth \$690 million, where the company's share stands at \$420 million. These projects are a 50/50 joint venture for pipeline construction in Alberta, a highway up-gradation project by the British Columbia Ministry of Transportation and Infrastructure, and a mechanical and piping installation project in Ontario.

Chief Financial Officer David Smales put it aptly: "We always say don't look at one quarter in isolation," he said. "Over the course of the year, margins continue to move in the right direction."

On February 3, 2020, Aecon announced that it has acquired Voltage Power, an electrical transmission and substation contractor headquartered in Winnipeg, Manitoba, for a base purchase price of \$30 million. The acquisition brings key medium- to high-voltage power transmission and distribution capabilities to Aecon.

On February 10, 2020, Fraser Crossing Partners, a 50/50 joint venture between Aecon and Acciona, reached financial close on the Pattullo Bridge Replacement Project in British Columbia. The total contract is valued at \$967.5 million. Aecon's share of the contract value will be added to its construction segment backlog in the first quarter of 2020.

When asked about the impact of the coronavirus, Jean-Louis Servranckx, Aecon Group president, CEO, and director, said, "We have not seen any interruptions, I mean, to our work or our supply chain so far."

This is a solid play to make in 2020, especially considering the company's expected earnings growth of 8.3%, its dividend yield of 4% and a forward price-to-earnings multiple of 11.

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