



Hold This TSX Stock as the World Slowly Emerges From the Lockdown

Description

The world is slowly emerging out of the lockdown restrictions. There are some companies that have to start almost from ground zero. There are others that have been quietly working away, getting deals one at a time, and ensuring that they haven't taken too big a hit.

Engineering and construction specialist **Stantec** ([TSX:STN](#))([NYSE:STN](#)) belongs to the latter category. It has been winning projects consistently and it has a good mix of quality private sector and public sector clients. The company doesn't expect its credit risk to "increase meaningfully" as a result of the pandemic. However, there will be some weakness in financials

At the end of Q1 saw Stantec's contract backlog rise to a record of \$4.7 billion. Comparatively, it reported sales of \$3.77 billion in 2019. Stantec kept securing contracts even during April and May, despite countrywide lockdowns. This included including two contracts with Thames Water, the largest water provider in the U.K.

Stantec's net debt to adjusted EBITDA was 1.3 at the end of Q1, and the company's internal model indicates that it is not expected to go beyond two throughout 2020. Stantec has over \$250 million in undrawn credit capacity as of March 31, 2020, and has access to \$600 million more in funds if required.

What does this TSX stock expect for the rest of 2020?

Stantec expects the remainder of 2020 to be a challenging period. It expects its water and infrastructure segments to stand strong. Water is an especially good area, as the U.K. is seeing an acceleration of water contracts. Infrastructure has seen a majority of projects continue without interruption. Stantec expects that the maintenance deficit in global infrastructure will require continued investment, and this opens it up to government stimulus spending.

Currently, the building business for Stantec has been working with healthcare institutions and governments in designing temporary hospital facilities, like the McCormick Place Convention Center in Chicago to combat the pandemic. This will continue for the medium term before focus shifts to helping workplace, education, and healthcare spaces to adjust to a new style of working and operations.

Stantec's exposure to the highly troubled and volatile oil and gas energy sectors is less than 1% of net revenue, and so the company will barely be affected by any negative movement there.

[I had written](#) about this stock at the end of March, telling investors that it looked like a good buy. Stantec was trading at \$34.5 then. It has gained nearly 20% to trade at over \$41 today.

Stantec sports a forward dividend yield of only 1.51%. So clearly, this stock is not a dividend play. I had recommended this stock, as I felt the company would be able to emerge from this pandemic relatively unscathed. I think the market has factored in all the contracts it has owned, and it is fairly valued for now. You can expect the stock to trade sideways for a while. If Stantec gets new contracts, expect the stock to go up to \$46, [according to](#) analyst estimates.

CATEGORY

1. Coronavirus
2. Investing

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