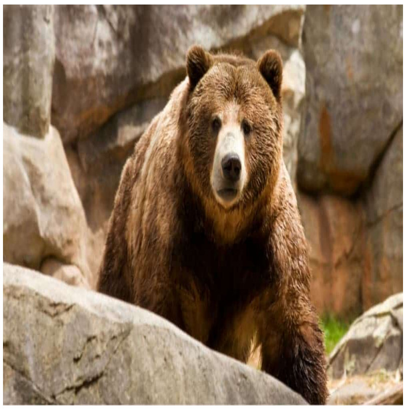

Sell Alert: Why I'm Bearish About This TSX Stock

Description

As the world comes to terms with the pandemic, investors should also keep a look at their equity investments in these turbulent times. Several stocks have made a comeback since bottoming out in March while a few have been rangebound. Let's take a look at a **TSX**-listed consulting giant that has rebounded since the sell-off, but might struggle to gain momentum in the near-term.

I have regularly written about **Stantec** (TSX:STN)(NYSE:STN), a global consulting firm in the industrial and construction space, this year. In March, I recommended a buy when the stock was at $34.5. The stock has since gained 22% and is trading 5% below its 52-week high.

Stantec declared its results for the second quarter of 2020 and the company beat analyst EPS expectations of $0.44 by $0.08 or 18%. Stantec has beaten analyst estimates in each of the last four quarters and has also beaten revenue estimates three out of the last four quarters.

Adjusted net income increased 2.9%, or $1.6 million, to $57.7 million. Adjusted EBITDA decreased 2%, or $2.9 million, to $142.5 million.

Stantec had a backlog of $4.7 billion at the end of Q2, an 11% increase from December 31, 2019, representing 12 months of work according to the company.

The pandemic-affected quarter actually saw the company's cash flow improve by 83% to $251 million thanks to an increase in cash payments from clients and lower payments to suppliers. However, this boost also includes $35 million in benefits because of various tax deferrals programs and will be due in staggered payments until the end of Q1 of 2021.

The second half of 2020 looks grim for the TSX stock

It is to Stantec's credit that it has emerged with fewer than expected bruises at the end of Q2. However, the road ahead could be much tougher. While its Q1 revenues were largely unaffected, Q2 saw a slight dip. The remainder of the year could see even more pressure.

The company has said, “Entering the second half of the year, slowdowns in current projects and new awards are increasingly being observed, particularly in the private sector. Further, client requests for pricing concessions in certain sectors and specific geographies, coupled with competitive pressures brought on by the pandemic, will put pressure on revenues for the remainder of the year.”

Stantec forecasts the retraction in nominal net revenue to continue in the next two quarters. When you take the above statements into consideration, the reading between the lines is that this is as good as it gets for Stantec.

The Foolish takeaway

It is commendable that the company has stood strong in an economy hit hard by COVID-19. However, its home market Canada, already had a weak pre-pandemic economic outlook and the company expects “the 2020 revenue retraction in this geography is expected to be more pronounced than in other geographies in comparison to 2019.”

While the U.S., U.K., where Stantec won the contract for the Irish Water engineering design services seven-year framework), Australia and New Zealand are expected to perform in a similar fashion to 2019, I expect the stock to be range bound heading into 2021.

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