



Value Investors: 1 Infrastructure Giant to Buy Today

Description

Aecon ([TSX:ARE](#)) is a Canadian leader in [construction and infrastructure development](#). The company provides integrated turnkey services to private- and public-sector clients. Aecon operates in two principal segments within the construction industry, namely construction and concessions. Services range from financing, design, construction and operation to procurement, materials supply, and fabrication.

Robust operating segments

The company's construction segment includes [all aspects of the construction](#) of both public and private infrastructure, primarily in Canada and, on a selected basis, internationally, and it focuses primarily on several market sectors. These sectors include civil infrastructure, urban transportation systems, nuclear power infrastructure, utility infrastructure, and industrial infrastructure.

Activities within the concessions segment include the development, financing, build, and operation of construction projects by way of public-private partnership contract structures as well as integrating the services of all project participants, and harnessing the strengths and capabilities of Aecon. The concessions segment focuses primarily on the development of domestic and international projects, private finance solutions, developing effective strategic partnerships, actively participating in development teams, and operations and maintenance.

Positive future outlook

The infrastructure development industry in Canada is seasonal in nature for companies like Aecon that perform a significant portion of work outdoors, particularly road construction and utilities work. Aecon has historically experienced a seasonal pattern in the company's operating results, with the first half of the year, typically generating lower revenue and profit than the second half of the year.

Aecon's overall outlook for 2021 is positive, despite the ongoing background of COVID-19. Backlog, recurring revenue programs, and the pipeline of bidding opportunities for new work remain at strong

levels. Furthermore, demand for the company's services is expected to remain healthy for the foreseeable future, as the federal government and provincial governments across Canada have identified investment in infrastructure as a key source of stimulus as part of economic recovery plans.

Recurring revenue sources

An Aecon consortium has been named as first negotiations proponent for the Eglinton Crosstown West Extension Advance Tunnel project in Toronto, which is expected to be awarded in the second quarter of 2021 upon closing of related project financing. Aecon is also pre-qualified on a number of large project bids due to be awarded during 2021 and 2022. Recurring revenue in the utilities sector in particular should grow based on the capital investment plans of a number of key clients, particularly in telecommunications and power-related work.

Strong financial position

Aecon's financial position, liquidity, and capital resources remain strong and should be sufficient to finance the company's operations and working capital requirements for the foreseeable future. The company has a committed revolving credit facility of \$600 million. The company has no debt or working capital credit facility maturities until the second half of 2023, except equipment loans and leases in the normal course of business.

In summary, the overall outlook for 2021 is positive, as construction continues on a number of projects that ramped up in 2019 and 2020. Long-term shareholders should be well served by the level of backlog and new awards during 2020, and the strong demand environment for Aecon's services, including recurring revenue programs.

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