



Why Stantec (TSX:STN) Jumped 14% on Thursday

Description

Stantec ([TSX:STN](#))([NYSE:STN](#)) shares jumped 14% in early morning trading on Thursday. The company announced it would acquire select Cardno businesses.

What happened?

The design and engineering leader will acquire the North America and Asia Pacific assets of Cardno for US\$500 million. This would exclude the Latin American operations and other international development from the acquisition. The deal helps Stantec grow its environmental services and infrastructure footprint. The acquisition is set to close by the end of this year.

Cardno is also a global infrastructure company. It focuses on environmental and social development that operates in more than 100 countries. The deal adds a further 2,750 professionals to Stantec's workforce. The combined infrastructure business will represent 30% of Stantec's future net revenue. Meanwhile, the environmental business will represent 20% of Stantec's future revenue.

So what?

This is a major move for Stantec in exactly the right direction. Not only can it gain access to the growing sector of clean energy infrastructure investment, it gets solid investments off the bat. The deal expands its growth in government services, health sciences, urban development and other areas. Plus, there are significant synergies to take advantage of.

By 2022, the net revenue from the deal should increase to US\$350 million. Furthermore, the deal should create US\$10 million in synergies within two years. And the debt won't be that great. The deal should be [paid](#) for with existing funds and credit. That stays within Stantec's target leverage range of between one and two at 1.5.

Now what?

All that remains is Cardno shareholders agreeing to the purchase. After that, it's full speed ahead.

Shares of Stantec climbed 14% at the news, with Cardno moving about 4% as well. The news also comes right before Stantec is set to report earnings on Nov. 3. This clearly is timing well spent. This proves to investors and Cardno shareholders that Stantec can not only afford the purchase but needs more growth opportunities.

It's more good [news](#) for the company. It was selected by the United States Agency for International Development to provide US\$800 million in global architect-engineer services under a five-year contract. This is a massive undertaking to help "save lives, reduce poverty, strengthen democratic governance, and help people progress beyond assistance."

Shares are up 65% year to date, as of writing, above one-year estimates for the stock. But with this new deal, and earnings around the corner, that potential upside is likely to change very soon.

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alegatewolfe

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