



## Bull or Bear: Why Analysts Changed Their Tune on Aecon Stock

### Description

The pandemic led to many industries putting projects on hold, and construction was no exception. **Aecon Group** ([TSX:ARE](#)) now has an enormous backlog of construction projects ready to go, and analysts had been quite excited about the future of Aecon stock.

But that seems to have changed over the last month or so. Today, we're going to look at why — and whether investors should be bearish or bullish on Aecon stock.

### Earnings growth not so great

Aecon recently reported first-quarter earnings of \$986 million in revenue, which was a 31% increase year over year. Yet the company had a net loss of \$17.4 million, or \$0.29 per share, which fell in line with expectations. And while its contracts and backlog are increasing, with the backlog now at \$6.4 billion, some worry whether the company can really get a handle on those projects ... and whether it can continue to blame the pandemic for why it's been lagging behind.

### What analysts say

After the earnings report, analysts weighed in on the future of Aecon stock. The company now has a “market perform” rating, and it's true that there is a favourable outlook in the near-to-intermediate future.

But there could be a problem with Aecon stock as a long-term investment. This comes down in large part to inflation and claims settlements. Even with so much backlog, the company will likely have to wade through contract after contract when it comes to purchasing materials at higher prices. And this will eat into profits.

So investors right now may see some strength from Aecon stock, it's true. The government continues to throw cash its way to get infrastructure back on track. But beyond 2023, this support could seriously drop back. And over the next decade, costs could dig deep into the company's profits.

## Where this leaves investors

So where does this leave investors who wonder about investing in Aecon stock? Short term, it still looks like it might be a good purchase. Especially with a volatile market leaving the company trading at lower levels.

However, it's no longer the solid long-term investment it once was. Once the government bows out and prices for products climb, the company could be stuck with lower profits — even with such a tremendous backlog.

Furthermore, that backlog could continue to grow (instead of projects getting underway) as Aecon continues to negotiate deals for products and wages. So I'd suggest that analysts and investors temper their expectations for Aecon stock in the future, despite a potential slight recovery over the next few months.

### CATEGORY

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