



2 Builder Stocks Could Soar Higher Ahead of a Construction Boom

Description

The high interest rate environment has weakened Canada's housing market and might weaken further with more rate hikes. Also, the [growth momentum](#) in the country's construction industry has stalled due to soaring energy prices and supply disruptions in essential construction materials.

Data from Statistics Canada show that value-adding growth fell 1.2% year on year (YoY) in the first seven months of 2022 compared to the 6.1% YoY growth in 2021. Price hikes or increases in construction costs, both residential and non-residential buildings, impacted the construction industry.

However, **Bird Construction** ([TSX:BDT](#)) and **Doman Building Materials** ([TSX:DBM](#)) should pick up steam in the stock market. Both builder stocks reported impressive quarterly results recently, notwithstanding the [massive headwinds](#).

Resilient business model

Bird Construction focuses on the general contracting industry (industrial, commercial, and institutional sectors) and engages in civil construction operations. Current investors are down 27.75% year to date, but they are delighted with the stock's 18.06% gain in one month.

In the third quarter (Q3) of 2022, the \$365.12 million general contractor reported 7.6% and 19.4% increases year over year, respectively, in construction revenue and net income to \$668.15 million and \$14.46 million. According to management, the strong quarterly earnings reflect the resiliency of Bird's diversified and risk-balanced business model.

The general contractor derives more than 90% of its revenues from lower-risk contract types. Moreover, projects under collaborative contracting methods are likewise increasing. Teri McKibbin, Bird's president and chief executive officer (CEO), said, "Our steadily growing revenue, improving margins, and expanded recurring revenue highlight the company's resilient business model."

Besides minimal exposure to lump-sum, turn-key contracts, Bird boasts a diversified national service offering. The strategic priority is to grow and improve margins in the coming years. McKibbin added

that based on the record combined backlog (\$2.9 billion) and pending backlog (\$2.1 billion), there's visibility into Bird's future financial performance.

Bird's CEO believes that the stage is set for continued organic growth and opportunistic tuck-in acquisitions. As of this writing, the share price is \$6.80, while the dividend yield is 5.43%. The payout should be sustainable, given the low 49.37% payout ratio. Market analysts' 12-month average price forecast is \$9.56 (+40.6%).

Robust market growth opportunity

Doman is a leading distributor of building materials in North America. At \$5.80 per share, the stock trades at a discount (-20.54% year to date), although it has gained 4.32% in the last 10 days following solid earnings growth in Q3 2022. Furthermore, the dividend yield is an enticing 9.71%.

In the three months that ended September 30, 2022, net earnings rose 51.9% to \$11.63 million versus Q3 2021. The top line, or revenue, increased 19.1% year over year to \$744.1 million. Management said rising interest rates and the expected housing market slowdown cooled consumers' demand and heightened pricing volatility.

Its board chairman Amar S. Doman said, "Despite all the macroeconomic headwinds of late, I am very pleased with our ability to demonstrate continued top-line growth while stabilizing gross margin." Doman sees robust market growth opportunities over the long term and expects the \$504.52 million company to maintain its industry-leading position in North America.

Gaining momentum

Bird Construction and Doman are gaining momentum ahead of the anticipated construction boom. Both companies should also be at the front and centre of the government's double housing construction plan over the next decade.

CATEGORY

1. Dividend Stocks
2. Investing

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