Stantec Inc. (STN)

Updated June 2nd, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	9.2.%	**Market Cap:**	$4.98B
Fair Value Price:	$39	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date:**	06/29/2021
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	07/15/2021
Dividend Yield:	1.2%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	6.5%[1]

Overview & Current Events

Stantec Inc. provides professional consulting services in the field of infrastructure and facilities internationally. This includes services in engineering, architecture, interior design, environmental sciences, project management, and project economics. The company also undertakes water provision, transportation, and public works such as transportation planning and traffic engineering. Finally, it serves the urban regeneration, infrastructure, education, and waste industries. Stantec generates around $3.7 billion in annual revenues and is based in Edmonton, Canada. All figures in this report have been converted to $US.

On May 5th, 2021, Stantec released its Q1 results for the quarter ended March 31st, 2021. Net revenues came in at $716.11 million, 6.6% lower YoY, mainly due to an organic retraction of 7.4% related to the impact of the pandemic on the "buildings business" and Stantec's reduced scope on a large midstream project. This was offset by the water business, which continued to perform well, delivering organic net revenue growth of 3.7%. Results were also boosted by acquisitions, which contributed to revenue growth of 2.2%, and the strengthening of the Canadian Dollar. Net income increased by 28.2% to $42.16 million, or $0.41/share.

The company's contract backlog increased by 5.3% to $3.81 billion compared to last quarter, including double-digit growth in the Energy & Resources and Environmental Services backlog. It represents about 12 months' work. Further, the company's acquisition of GTA Consultants in Q1 and the recent agreement to acquire Engenium, together imply a 20% increase in Stantec's Australian presence. Combined with its robust backlog and assuming constant currency, we estimated FY2021 EPS of $1.57.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.14	$1.33	$1.49	$1.52	$1.20	$0.91	$0.68	$0.31	$1.34	$1.21	***$1.57***	***$2.65***
DPS	---	$0.30	$0.31	$0.32	$0.30	$0.34	$0.40	$0.40	$0.45	$0.49	***$0.55***	***$0.74***
Shares[2]	91.3	91.5	92.5	93.5	94.1	107	114	113.7	111.6	111.6	***111.6***	***111.6***

Stantec has been growing its revenues consistently over the past two decades, riding the wave of increased spending in infrastructure, net zero-designed buildings, and green energy. EPS lagged from 2013 to 2019, as the company took advantage of its increased operating cash flows to acquire other companies and reinvest back into its business. With scaling, EPS has also started to accelerate over the past few years, and it should continue to do so as the company's margins undergo an expansion phase. We expect an EPS medium-term growth of 11% in the medium-term, powered by the global trend of increased spending in green energy, smart cities, ecosystem restorations, and clean infrastructure.

The company has grown its dividend annually in its original CAD reporting since initiating one in 2012. However, in its NYSE listing, dividend growth has lagged due to the Canadian dollar's prolonged depreciation against the USD. This applies to the company's EPS performance as well. We expect DPS growth of around 6% in the medium-term, slightly lower than Stantec's last DPS increase, as the company retains sufficient cash to reinvest towards its future prosperity.

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[1] Based on the original Canadian listing- implies constant currency.

[2] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	12.8	16.1	21.7	29.2	35.2	50.9	103.2	23.1	32.2	***28.4***	***25.0***
Avg. Yld.	---	1.8%	1.3%	1.0%	0.9%	1.1%	1.2%	1.3%	1.5%	1.3%	***1.2%***	***1.1%***

Stantec's P/E ratio has fluctuated wildly over the past decade due to volatile EPS for the reasons mentioned earlier. We can see the stock retaining a premium multiple as investors' appetite for growing ESG companies should remain very strong. Stantec has clear growth catalysts ahead and an expanding backlog. However, we believe that the current P/E of around 28.4 times our expected FY2021 EPS is a bit rich. A valuation compression towards a P/E of 25 is likely more reasonable considering its current growth rates. Investors should also expect a tiny yield moving forward, as the company remains in a growth/reinvesting phase.

Safety, Quality, Competitive Advantage, & Recession Resiliency

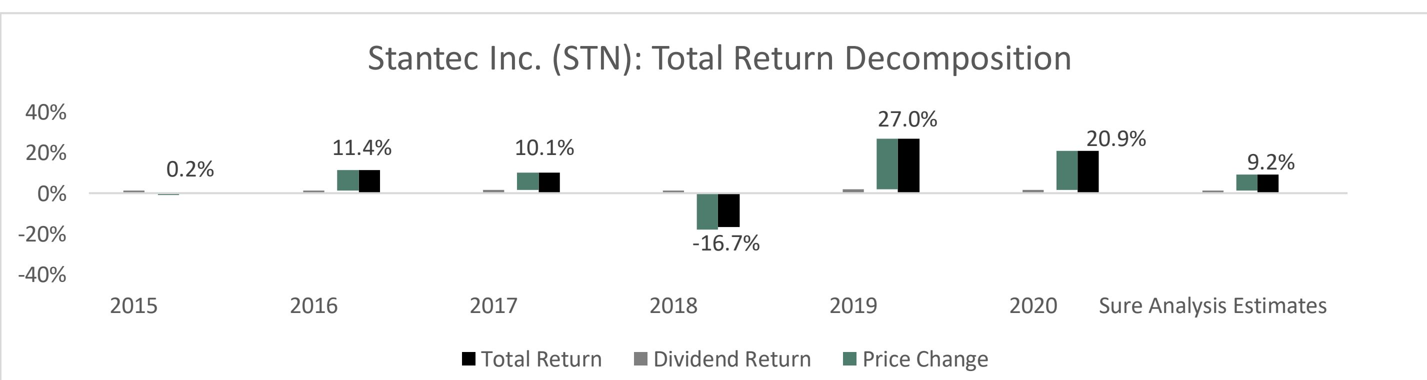
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	23%	21%	21%	25%	37%	59%	129%	34%	40%	***35%***	***28%***

We consider Stantec's dividend very safe. Not only is the payout ratio quite healthy, but EPS is growing at a faster rate than DPS. Further, the company reports high depreciation and amortization levels. Hence, the dividend is covered by an even wider margin from cash from operations. Additionally, Stantec showcases great operational qualities, such as its year-long worth of revenues of backlog, which should be able to sustain a stable performance if demand for its services faces temporary headwinds. We can't identify and particular competitive advantages, though the company's massively wide array of services could make it a more desirable option for future clients against its competitors, which operate in smaller, fragmented markets. Due to having a strong backlog and due to infrastructure and water revenues being secured under long-term contracts, we believe that financials will remain resilient under a potential recession, as was the case during the Great Financials Crisis.

Final Thoughts & Recommendation

Stantec showcases an extended record of excellent shareholder value creation. The company is operating in an industry full of favorable growth catalysts ahead, which should result in higher financials and a growing backlog going forward. We expect annualized returns of around 9.2% in the medium-term, and therefore, we rate shares a Hold. That being said, upon a potential correction of its recent highs (below $40/share), investors should consider it a strong Buy. American investors should be wary of the FX fluctuations between the USD and CAD, which could notably sway returns over the long-term either way.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,702	1,871	2,172	2,292	2,254	3,247	3,109	3,306	3,637	3,530
Gross Profit	772	854	974	1,031	1,013	1,266	1,359	1,401	1,513	1,441
Gross Margin	45.3%	45.7%	44.8%	45.0%	44.9%	39.0%	43.7%	42.4%	41.6%	40.8%
SG&A Exp.	572	632	725	766	775	1,008	1,086	1,110	1,080	1,010
D&A Exp.	47	48	52	57	66	96				
Operating Profit	154	174	197	208	173	162	177	202	252	260
Operating Margin	9.0%	9.3%	9.1%	9.1%	7.7%	5.0%	5.7%	6.1%	6.9%	7.4%
Net Profit	13	121	142	149	123	99	75	37	146	128
Net Margin	0.8%	6.5%	6.5%	6.5%	5.4%	3.0%	2.4%	1.1%	4.0%	3.6%
Free Cash Flow	90	149	209	146	128	166	154			
Income Tax	37	43	51	53	43	38	128	42	54	43

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,297	1,472	1,567	1,688	1,688	3,178	3,088	2,944	3,492	3,442
Cash & Equivalents	34	41	134	132	49	156	190	130	171	224
Accounts Receivable	302	350	353	362	403	549	594	569	603	551
Goodwill & Int. Ass.	569	656	633	739	796	1,689	1,447	1,372	1,433	1,455
Total Liabilities	683	741	728	752	734	1,712	1,578	1,543	2,055	1,929
Accounts Payable	185	64	80	90	89	270	292	163	173	171
Long-Term Debt	290	301	224	266	263	757	588	686	674	538
Shareholder’s Equity	614	731	838	936	954	1,465	1,508	1,400	1,436	1,512
D/E Ratio	0.47	0.41	0.27	0.28	0.28	0.52	0.39	0.49	0.47	0.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.0%	8.7%	9.3%	9.2%	7.3%	4.1%	2.4%	1.2%	4.6%	3.7%
Return on Equity	2.1%	18.0%	18.1%	16.8%	13.0%	8.1%	5.0%	2.5%	10.3%	8.7%
ROIC	1.4%	12.5%	13.6%	13.2%	10.1%	5.7%	3.5%	1.7%	7.0%	6.1%
Shares Out.	91.3	91.5	92.5	93.5	94.1	107	114	113.7	111.6	111.6
Revenue/Share	9.32	20.42	23.31	24.29	23.83	30.25	27.18	29.04	32.61	31.54
FCF/Share	0.49	1.63	2.24	1.55	1.36	1.55	1.35			

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.