



Stantec Inc. (STN)

Updated November 10th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	9.1%	Market Cap:	\$6.14 B
Fair Value Price:	\$49	5 Year Growth Estimate:	11.0%	Ex-Dividend Date:	12/30/2021 ¹
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	01/18/2022
Dividend Yield:	1.0%	5 Year Price Target	\$82	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	6.5% ²

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 November 3rd, 2021, Stantec released its Q3 results for the period ending September 30th, 2021. Quarterly net revenues hit a new all-time high at \$749.9 million, 5% higher on a constant basis year-over-year, driven by organic net revenue and acquisition net revenue growth of 1.4% and 3.6%, respectively. Net income increased by 12.7% to \$56.27 million, or \$0.51/share. This resulted from gross margin growth, lower net interest, and depreciation, including progress on the 2023 Real Estate Strategy and lower income tax. Specifically, gross margins grew by 210 basis points to 54.3%. The company's contract backlog increased to \$3.78 billion, 7.1% higher year-to-date, including double-digit growth in the Energy & Resources and Environmental Services backlog. It represents about 12 months' work. Further, the anticipated US Federal government infrastructure stimulus program and the company's recently announced acquisition of Cardno's North America and Asia Pacific engineering and consulting businesses provide strong tailwinds as Stantec moves into 2022. Following better-than-expected results, we raise our FY2021 EPS estimates from \$1.60 to \$1.95.

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	\$1.95	\$3.29
DPS	---	\$0.30	\$0.31	\$0.32	\$0.30	\$0.34	\$0.40	\$0.40	\$0.45	\$0.49	\$0.53	\$0.71
Shares³	91.3	91.5	92.5	93.5	94.1	107	114	113.7	111.6	111.6	111.7	111.7

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%, 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.

¹ Estimated dates based on past dividend dates.

² Based on the original Canadian listing- implies constant currency.

³ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	28.3	25.0
Avg. Yld.	---	1.8%	1.3%	1.0%	0.9%	1.1%	1.2%	1.3%	1.5%	1.3%	1.0%	0.9%

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 28.3 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

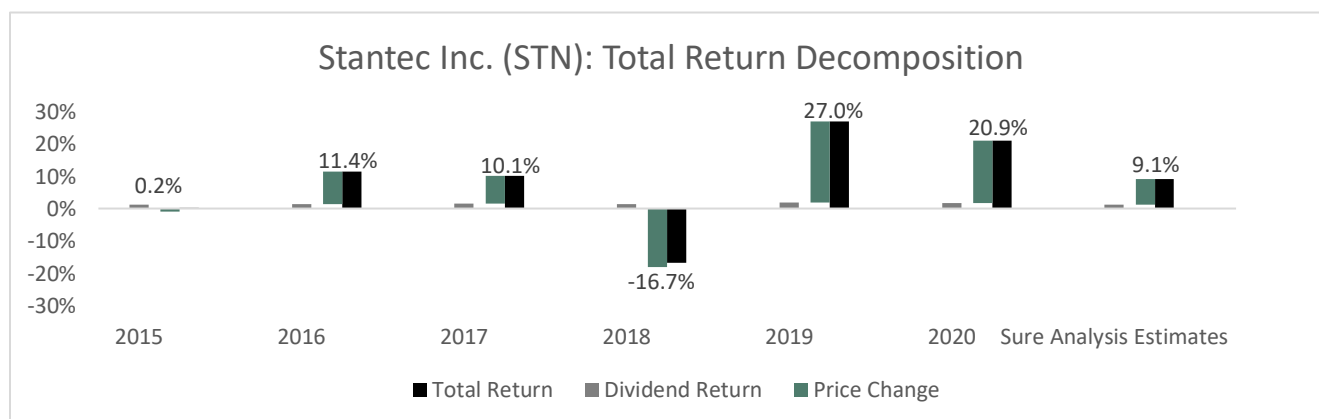
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	23%	21%	21%	25%	37%	59%	129%	34%	40%	27%	22%

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 9.1% in the medium-term, and therefore, we rate shares a hold. 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.

Disclaimer

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