

Aecon Group

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Aecon skids as Dundee Capital downgrades to neutral on weak Q4

Aecon (TSE:ARE) shares tumbled Thursday after reporting fourth quarter results that disappointed analysts, with Dundee Capital Markets downgrading the construction and infrastructure development company to a "neutral" rating from a "buy", while also slashing its price target.

Dundee said the quarter represented the fourth miss in a row for the company.

Revenue for the quarter was \$722.2 million, below the consensus estimate of \$868.5 million, and Dundee's forecast for \$864.5 million in sales.

Adjusted earnings per share of 45 cents also came in well short of Street estimates for 54 cents.

While EBITDA margin of 10.5 percent compared favourably to last year's 8.7 percent, Dundee said the revenue decline was insufficient to make up for the improved execution.

Backlog was up 50 percent year-over-year at \$2.65 billion and flat quarter-on-quarter.

"We are doubtful, however, that the current level of backlog is sustainable given the macro environment," wrote Dundee analyst Maxim Sytchev.

"While we don't dispute that infra / hydro / nuclear work will be available (around 70% of co's business), getting mining work (ex potash) and energy (ex oil sands overburden removal) will be very challenging, in our opinion."

Dundee said that consensus EBITDA estimates have declined by roughly 18 percent for both 2015 and 2016, and there is also more scope for negative earnings revisions, Sytchev added.

"Recall as well that current bidding backdrop will not be particularly kind to contractors suggesting that margin expansion thesis is going to be challenged when jobs won in a competitive environment will show up in 2016/2017 P&L," he wrote.

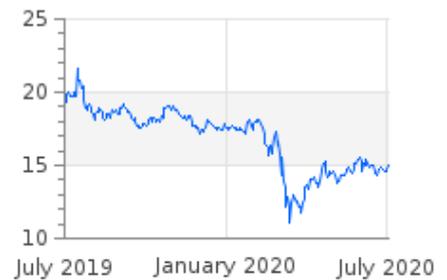
The company also increased its dividend to 40 Canadian cents per share from the current 36 cents, implying a new yield of 3.5 percent, but Dundee said that given multiple disappointments, the broker would like to see "a bigger margin of safety".

Dundee downgraded the shares to "neutral" from "buy" and cut its price target to C\$13.00 from the prior C\$16.50. Shares dropped almost 7 percent on Thursday to C\$10.68.

Price: 14.95

Market Cap: \$895.01 m

1 Year Share Price Graph



Share Information

Code: ARE

Listing: TSX

52 week High Low
21.83 10.94

Sector: Builders and building materials

Website: www.aecon.com

Company Synopsis:

Aecon is Canada's largest publicly traded construction and infrastructure development company.

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