



STOCKTRADES PREMIUM COMPANY SUMMARY

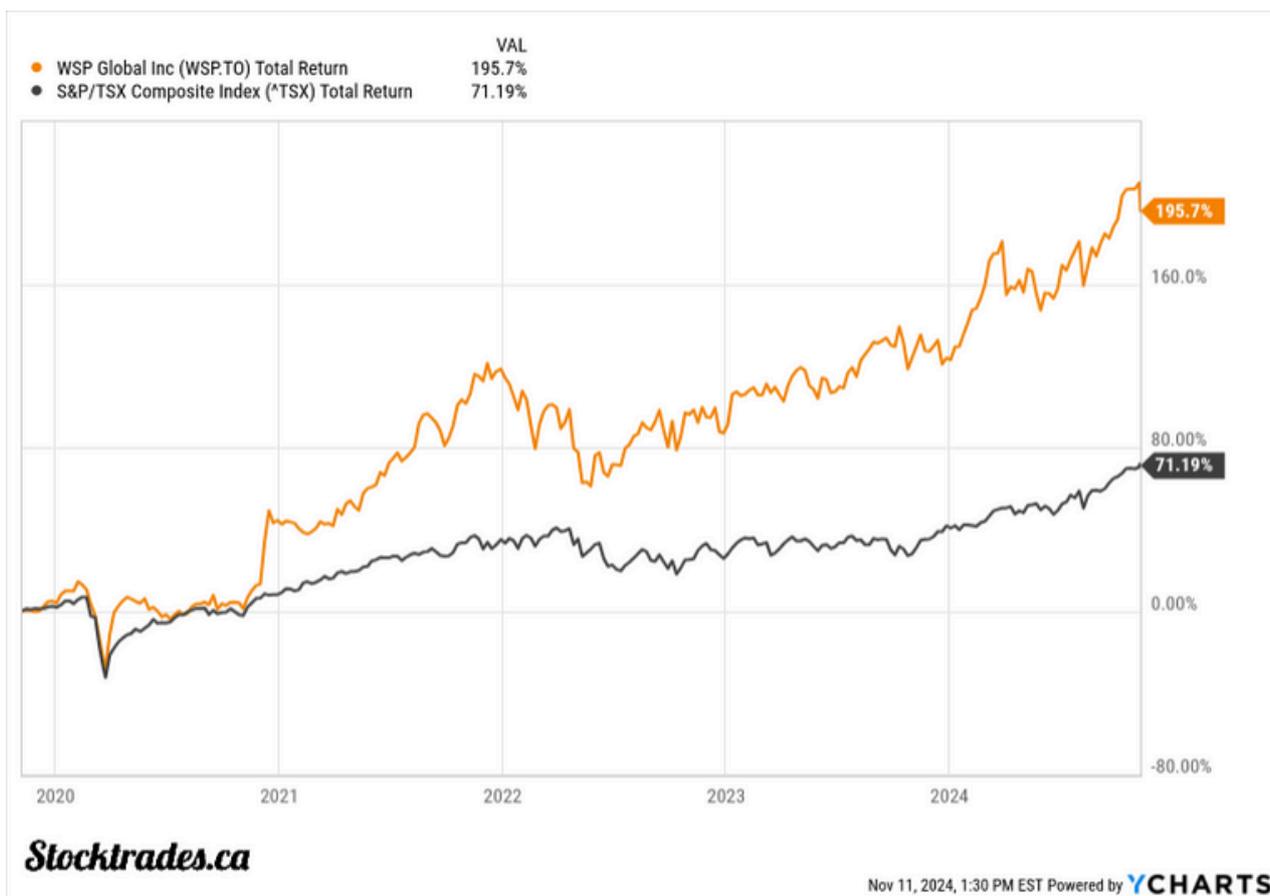
WSP GLOBAL

WSP.TO

UPDATED NOVEMBER 11, 2024

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Stocktrades Premium



WSP Global Inc provides engineering and design services to clients in the Transportation and Infrastructure, Property and Buildings, Environment, Power and Energy, Resources, and Industry sectors. It also offers strategic advisory services. The firm operates through four reportable segments namely, Canada, Americas (United States and Latin America), EMEIA (Europe, Middle East, India and Africa), and APAC (Asia Pacific, comprising Australia, New Zealand and Asia).

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	38	Dividend	44
Profitability	53	Outlook	85
Risk	84	Debt	45
Returns	78	Growth	72
Overall	59		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- The company is set to benefit significantly from rapid infrastructure expansion across the globe
- The company has the ability to grow organically and through strategic acquisitions, which give it more exposure to expanding verticals like data centers and healthcare
- The company's backlog is currently sitting at record levels and continuing to grow
- WSP is one of the fastest-growing companies out of all its peers and is gaining market share across the globe
- A short report has resulted in the company's share price being relatively flat since March of 2024, bringing with it lower valuations
- Margins continue to expand, and WSP is one of the most efficient companies in the sector
- The company's recent strong results ended up in them bumping 2024 guidance

CONS

- WSP relies a lot on acquisitions to fuel growth. As the economy improves and infrastructure expansion accelerates, it will likely face heavier competition in terms of acquisitions, which could result in overpayments
- The company's results, being far above most other engineering firms, have garnered a premium valuation. WSP will need to keep up outsized growth to justify it
- The company's dividend has been stagnant over the years, as it now focuses primarily on mergers and acquisitions to provide shareholder value. Depending on your investing strategy, this could change your mind about the company

OVERALL THESIS

The primary thesis around WSP Global being added to the Bull List is the fact that infrastructure expansion is accelerating at a rapid pace, and we wanted to add an industry leader that is fully expected to take advantage of that spending. WSP has a strong mix of both public and private sector spending, which means it should benefit from not only the expansion of government-related spending but also corporate-level spending in light of falling interest rates.

The company's backlog sits at record levels. It continues to grow on a quarter over quarter basis, and its margins continue to expand. Both of these, in addition to the infrastructure spending, should be added tailwinds to stronger results.

The company's balance sheet is strong, with interest coverage ratios exceeding 4X, and manageable debt levels. The company's current leverage ratio sits at 1.7X, and although this is higher than the 1.5X it sat at last year, it is still a prudent ratio debt-wise and also well within the company's guidance.

With the AI revolution fully under way, data center and IT infrastructure spending will, in my opinion, go through the roof. WSP should be able to benefit from this and also should be able to benefit from a large amount of corporations and governments that need to make adjustments to hit net zero carbon emissions.

From a valuation perspective, the company certainly isn't cheap. However, I don't expect it to trade at cheap valuations, considering the economic tailwinds that are behind it.

I believe the company will be able to continue to provide high single-digit revenue growth and double-digit earnings growth on an annual basis. Although some investors would prefer to see the company grow their dividend, I appreciate the fact the company makes strategic acquisitions into higher growth verticals that should ultimately fuel earnings growth, and thus share price, for shareholders moving forward.

POTENTIAL RISKS

The company has about half and half of its revenue in the private and public sectors. This means that the company is heavily dependent on government spending, which poses a regulatory risk, especially in less developed countries. Any sort of change in political parties to which the company has meaningful exposure comes with the risk of changing budgets, with the main headwind being a reduction in infrastructure spend. Engineering firms always

run the risk of projects being delayed, disputed, or coming in way above costs. These can not only hurt the firm's profitability but can also damage the firm's reputation with clients, resulting in the loss of future work. Although WSP has proven it can deliver for years, it is never guaranteed that it will continue to do so.

Beta	0.82
Alpha	17.55
Our Risk Rating	Mod*
Max Drawdown	37.1%

Although WSP is a leader at this point, competition in the space is fierce. There are Canadian competitors like Stantec and SNC Lavalin (now AtkinsRéalis). There are also noteworthy US competitors like Aecom and Jacobs Engineering. The industry is cutthroat, and effective project management and bidding is something every engineering firm needs to do to continue to secure contracts.

Finally, the company drives a reasonable portion of growth through making strategic acquisitions. Although it has a long history of executing well, there are zero guarantees it will be able to continue to execute moving forward, and any missteps when it comes to acquiring companies in the space can result in a destruction of shareholder value and would no doubt impact its stock price.

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VALUATION

	TTM	5 Year Average	Industry Average
P/E	47	43.8	38
P/S	1.99	1.68	1.49
P/B	4.62	3.69	4.17
P/FCF	24.9	24.9	N/A
PEG Ratio (FWD)	0.72	N/A	N/A

If you are looking for a bargain stock, WSP Global will certainly not fit your criteria. This is a "Growth At A Reasonable Price" play. The company trades at 25x free cash flows and around 25x expected earnings.

The bright side? This is what you can expect to pay for an industry leader. A prime example I can think of when it comes to GARP plays was the decision to add Intact Financial to the Bull List despite high valuations. The company has gone on to nearly double the returns of the S&P 500 since our addition.

Strong companies trade at premium valuations. In my opinion, WSP is one of those companies. When we look to competitors, the company trades well above the median average in terms of price to earnings (22X). However, considering the company's faster growth rates, we feel this valuation is more than justified.

If we assign a target price-to-earnings multiple of around 28X on Fiscal 2025 earnings, we get a share price of \$266 if the company is able to hit the top end of its expectations.

Of course, these are estimates, and estimates are far from guaranteed. However, WSP has not missed expected earnings estimates for more than 2.5 years and has only missed revenue estimates in one quarter over the same timeframe.

Considering its current price of \$242, this would represent double digit share price growth over the next 12-15 months.

COMPETITOR ANALYSIS

	WSP	STN	ATRL
P/E	46.9	38.6	36.7
P/S	1.98	1.83	1.31
P/B	4.61	4.8	3.5
P/FCF	24.8	28.3	101

The above chart highlights some of the largest Canadian competition WSP Global faces. However, make no mistake, there is plenty of competition globally when it comes to engineering and infrastructure companies. At this point, Stantec is the cheaper play from a Canadian perspective; however, its operations tend to be a bit rockier while WSP's are consistent. For this reason, we're really not all that surprised that the market is willing to pay a higher valuation for WSP.

For Atkinsrealis, which is formerly SNC-Lavalin, the company really doesn't interest me much at all. It has gone through some extensive cyclical situations where it has been caught up in poor operation results and numerous scandals, which is highly likely why the company has rebranded. I would need to see years of strong results and a squeaky-clean record from Atkinsrealis to make me ever consider it, even though it is cheaper than WSP.

DIVIDEND ANALYSIS

Annual Dividend	Payout Ratio (EPS)	5 Year Dividend Growth %	Dividend Growth Streak
\$1.50	31.2%	0%	0

Despite having plenty of cash flow available to do so, WSP Global does not prioritize dividend growth whatsoever. The company has not grown the dividend since the end of the financial crisis. Instead, it continues to prioritize acquisitions as the preferred method of spending cash flow.

Thus far, it has been really hard to argue with the company's strategy, as it has successfully integrated the acquired companies into the fold for many years.

As an investor, I'd much rather a company allocate capital towards acquisitions that will grow the bottom line. This is likely a much better opportunity for that capital than I would ever get receiving it as a dividend.

Notable acquisitions as of late would include POWER Engineers, where the company spent \$2.4B to acquire a company specializing in energy transitions (think renewables). Another acquisition would be the environmental infrastructure businesses of John Woods Group, which was a \$1.8B acquisition.

Ultimately, I feel excess cash flows at this point in time are better kept in the hands of WSP rather than returned to me as a dividend. So, I have zero issues with the lack of growth.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$7.95	\$9.46	\$
Revenue	\$12B	\$13.8B	\$14.5B
EBITDA	\$2.16B	\$2.54B	\$2.76B
EBITDA Margin	18%	18.44%	18.98%

After a strong second quarter, WSP reported a relatively inline quarter for Q3. Although revenue of \$2.99B was in line with expectations and earnings of \$2.24 topped estimates by a few pennies, the company has typically reported stronger results than this. Due to that, it had a bit of a dip post-earnings but nothing material.

Revenue is up 10.7%, and net earnings are up 13.3% on a year-over-year basis. The company is posting some of the strongest organic growth rates in over a decade and is firing on all cylinders.

The company's backlog grew by 4.8% year-over-year, coming in at \$14.8B, an all-time high for WSP. This backlog works out to be nearly an entire year's worth of revenue.

The company's North America segment is where it is performing best, reporting an 11% increase in organic revenue growth, a 4.2% increase to its backlog, and the highest EBITDA margins out of any of its segments at 21.1%. When we look to its European arm, it reported mid-single-digit revenue growth, 6.6% backlog growth, and 16.5% margins.

Its Asia-Pacific segment is where it continues to struggle. Organic growth came in at only 1%, and the company's backlog fell by about 5.4%. One of the key reasons for this is the slower digital transformations in these countries. North America and Europe are rapidly expanding in data centers and other tech-based solutions on the back of growing AI demand. The market potential in this segment is significant; it is just taking some time to come to fruition.

It is important to keep in mind that this geographical region for the business makes up a relatively small portion of revenue, with North America and Europe making up the vast

majority (over 83%). However, I do see the APAC segment as a strong long-term growth vertical for WSP.

Overall, it was a solid quarter for WSP Global. This company continues to confirm my thesis of being a long-term Growth at a Reasonable Price play on the back of rapidly expanding infrastructure in North America and globally.



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