

# PALOS

## CONTENTS

## Weekly Commentary

Issue No. 24 | JUNE 1, 2020

Infrastructure Spending Is on The Rise	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

*By Charles Marleau, CIM*

## Infrastructure Spending Is on The Rise

Aecon Group Inc. (TSX: ARE) is a Canadian construction and infrastructure company that serves both the private and public sectors. The company offers a diversified slate of services that includes project financing and development, engineering, construction, and operations management. Aecon's construction portfolio is diversified across Roads & Highways (17%), Utilities (16%), Industrial (18%), Civil (16%), Urban Transportation (18%), and Nuclear Power (15%).

Further enhancing Aecon's diversification is their growing Concessions business which focuses on the financing, development, and long-term management of infrastructure projects. Aecon views their concessions portfolio as a sustainable driver of revenue growth. By securing an equity stake, and/or servicing contracts for public transportation projects like bridges, light rapid transit (LRT) and airports, revenues can be extended well beyond the construction phase. Concessions contracts are usually for terms of 30 years and in fact, current 30-year concessions include the construction and a 100% ownership of the L.F. Wade International Airport in Bermuda, three LRT projects in Ontario and the Gordie Howe International Bridge that will link Windsor and Detroit.

The company released its Q1 2020 results on May 21st and reported year-over-year increases in revenue and adjusted EBITDA. Compared with same quarter 2019, revenues were up 15%. While the company realized a small loss for the quarter, management also confirmed a record backlog of \$7 billion and a bid pipeline exceeding \$40 billion. Diluted Earnings per Share have grown at a 23% Compound Annual Growth Rate (CAGR) while dividends have increased in 8 of the last 9 years with a CAGR of 14%. The company is in a strong financial position with the liquidity and resources necessary to finance operations well into the future.

Management further commented that COVID-19 restrictions has resulted in project postponements (e.g. Bermuda airport suspended until Q3). While such delays are expected to be temporary, there will be a negative impact on revenues until normal operations return. My view is that investors are being short sighted as indicated by the stock's recent price weakness and that the negative tone surrounding the impact of the pandemic has been priced in. It's important to note that most of Aecon's government projects are deemed as essential services. Therefore, while operations have been altered, they are ongoing. Doing their own part,

*By Charles Marleau, CIM*

Aecon has proactively implemented processes addressing the health and safety of its workers. Management has also been proactive in managing non-essential capital spending.

With governments around the world looking for ways to stimulate a softening economy, and historically low interest rates acting as a catalyst, we believe that infrastructure spending is destined for a boost not only in 2020, but well beyond. Federal and provincial governments have made it clear that infrastructure investment will play a key role in the economic recovery. Aecon is well positioned to capitalize on the infrastructure boom that we believe is just over the horizon.

*Disclaimer: Palos Funds are shareholders of ARE.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.00	-14.87%
Palos Equity Income Fund - RRSP	PAL101	\$4.98	-12.30%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$6.82	-10.93%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$7.59	-26.87%
S&P TSX Composite (Total Return with dividends reinvested)			-9.70%
S&P 500 (Total Return with dividends reinvested)			-4.98%
S&P TSX Venture (Total Return with dividends reinvested)			-3.96%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.65%
Canadian Government 10-Year			0.53%
Crude Oil Spot			US \$35.49
Gold Spot			US \$1,736.90
US Gov't10-Year/Moody BAA Corp. Spread			311 bps
USD/CAD Exchange Rate Spot			US \$0.7259

<sup>1</sup> Period ending May 29, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

# Weekly Commentary

Issue No. 24 | JUNE 1, 2020

## Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

[www.palos.ca](http://www.palos.ca)