

# PALOS

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## Weekly Commentary

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By Charles Marleau, CIM

## Infrastructure Spending Is on The Rise (Part 2)

Last week I wrote about Aecon Group Inc. (TSX: ARE) and how the company is well positioned to capitalize on a boost in infrastructure spending by governments. WSP Global Inc. (TSX:WSP) is another Canadian company that stands to profit from an upturn in infrastructure. WSP offers professional engineering services that are focused on the construction, energy, infrastructure, telecommunications, environmental and transportation industries. The company is a 'pure play' with a strong focus on consulting and design, unlike Aecon whose focus is geared towards project execution (i.e. the actual construction).

In the most recent annual report, management highlighted the company's **2019-2021 Global Strategic Plan**. A key part of WSP's growth strategy has been a series of successful acquisitions in 2019 that has expanded the company's global presence which now includes Australia, the Americas, Africa, the Middle East, and Europe. With approximately 50,000 professionals around the world, WSP is poised to continue its ambitious path to becoming a globally recognized leader. To further the company's highly regarded reputation amongst its clients, WSP is committed to sustainability and its focus on Environmental, Social, and Governance issues (ESG).

WSP revenues are diversified across four business segments. The largest segment is **Transportation & Infrastructure** which accounts for approximately 53% of revenues. This segment is essentially non-cyclical and should benefit from increased government spending on transit, highways, rail, and urban infrastructure. The second largest is **Property & Buildings**, which generates approximately 26% of revenues and includes both residential (building evaluation, repair and renewal, and planning) and non-residential (healthcare, government, education, commercial). WSP has leading expertise and experience that meets the demands for state-of-the-art engineering and technically sophisticated businesses.

**Industry, Resources & Energy** accounts for 12% and **Environment** for 11%, although the latter is expected to benefit from increased attention being paid to environmental sustainability. With clients placing greater emphasis than ever on the environment and on reducing their carbon footprint, pursuing a commitment to the highest standard of ethical behaviour and on reducing environmental impact will further enhance the company's reputation. WSP has a proven track record in executing on organic growth. Over the past four years, revenue and EBITDA have grown by 40% and 100% respectively.

*By Charles Marleau, CIM*

On June 1st, WSP completed a \$437 million “bought deal” with a syndicate of Canadian underwriters, and a simultaneous private placement with the Caisse de dépôt et placement du Québec (CDPQ) and the Canada Pension Plan (CPP), for an additional \$64 million. Upon completion of the offering, CDPQ will own approximately 18.5% of the outstanding shares and the CPP will own 19.0%. I view this as a positive development as both parties are highly regarded investors with a long-term view. WSP has stated that they intend to use the proceeds for corporate purposes and potentially, for future acquisitions.

WSP has a long track record of acquisitions and over the last 10 Years, WSP has made six transformational acquisitions. The raise in capital has renewed speculation that WSP is reopening the door to a possible deal with AECOM (NYSE:ACM). Not to be confused with the Canadian based Aecon, ACM is a U.S. based entity with a similar profile to WSP. If speculation surrounding a WSP + ACM “marriage” comes to fruition, this would be a great fit for WSP as it would immediately facilitate greater accessibility to the U.S. market.

*Disclaimer: Palos Funds are shareholders of ARE, WSP.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.39	-10.09%
Palos Equity Income Fund - RRSP	PAL101	\$5.23	-8.53%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$6.99	-8.68%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$7.79	-24.94%
S&P TSX Composite (Total Return with dividends reinvested)			-5.74%
S&P 500 (Total Return with dividends reinvested)			-0.26%
S&P TSX Venture (Total Return with dividends reinvested)			-3.42%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.90%
Canadian Government 10-Year			0.73%
Crude Oil Spot			US \$39.55
Gold Spot			US \$1,676.20
US Gov't10-Year/Moody BAA Corp. Spread			301 bps
USD/CAD Exchange Rate Spot			US \$0.7451

<sup>1</sup> Period ending June 5, 2020. Data extracted from Bloomberg

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

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



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