

STANTEC INC. | Mar 16, 2015 | Recommendation : Hold | Target Price: 29.33

Uncertain and Volatile Target Market Outweighs

Strong Growth Potential

Uncertainty in Energy & Resources, and economic recovery outweighs proven past YoY revenues growth of 10 % on 4 yrs. Recent drop in crude prices give doubt for future capital expenditure with little increase in consumer spending given cheaper gas. Investment in Infrastructure also in doubt.

Key Metrics			
1,000's	2015e	2016e	2017e
Growth	9.666%	~12%	~11.2%
EBITDA	307,761	345,056	384,007
Beta	~0.69%	WACC	~3.83%
g Terminal	0.06%		

Background—Sources Appendix A: Price of WTI peaked around 115.00 in June 2014 and shifted into decline to 50.00 in January 2015. Easing global demand and OPEC's production stance show harsher, uncertain futures for North American production. IEA warns of further price volatility. Early reports on consumer spending given higher purchasing power are conflicting at times. Canadians seem to save more given weaker holiday sales. Reuters report higher spending by Americans though "overshadowed by a drop in capital expenditure".

Rationale: Decision is based upon trends in Stantec's business segments with emphasis in energy other concerns deal with environmental and regulatory projects. Changes in oil prices will affect Stantec's primary business segment and impacts secondary segments given oil's effect on consumer and governmental budgeting. We expect lower capital expenditure not explicitly on low oil prices but the doubt caused by such fast change in oil prices and future potential to do so.

Organic growth of income was projected using expected growth in construction, oil & gas, and road & highway industries as a proxy. A ratio of 2 parts acquisition growth to 1 part organic growth is assumed from 2014 conference call information. Resulting growth appears inline with proven YoY growth of 10% with a decrease in 2015 to 8%. Terminal growth is set 7%, so to provide a situation

where acquisitions are roughly equal to organic growth. This provides a steady path to the company's goal of become a industry leading firm. Projections of balance sheet items with emphasis on PP&E based upon past growth and/or past fraction of revenues or other key metrics. A foreign exchange offset is introduced as to align and simplify projections with current accounting practices.

Acquisitions based upon 2014 conference call information and past trends. Stantec looks to acquire companies in the North America when opportunities align. We assume acquisitions continue given that it plays a critical role in Stantec's strategy in addition to their goal of diversifying in geographic reach and from their energy segment.

Stantec currently posses a strong balance sheet and we expect them to maintain their current status. Given the nature of Stantec's work, notable portions of balance sheet items include cash, goodwill. Other material accounts expected to be directly related to the project Stantec initiates.

Forecast Risk: Significant forecast risk in the areas of growth and acquisitions. Global prospects are uncertain. We assume a return to 75-100 crude in '16 / '17. Stantec's Stance on acquisitions may change drastically, they do not issue specific information. Stantec conducts strategic reviews every 3 years. In the upcoming 2015 review, they may decide to change their acquisitions strategy.

APPENDIX A: NEWS SOURCES

Articles	Source	Date	Link:
IEA warns of further oil price volatility	Financial Times	Last updated: March 13, 2015 5:43 pm	http://www.ft.com/intl/cms/s/0/237aa472-c95f-11e4-b2ef-00144feab7de.html
Gas prices dip to 5-year low, savings could mean more consumer spending	BNN	December 2, 2014	http://www.bnn.ca/News/2014/12/2/Gas-prices-dip-to-5-year-low-savings-could-mean-higher-consumer-spending.aspx
Consumer spending plunges amid gas price drop, weaker holiday sales	Global News	February 20, 2015 7:30 pm	http://globalnews.ca/news/1840924/consumer-spending-plunges-amid-gas-price-drop-weaker-holiday-sales/
U.S. economy cools in fourth quarter, but consumer spending shines	Reuters	Fri Jan 30, 2015 12:37pm EST	http://www.reuters.com/article/2015/01/30/us-usa-economy-idUSKBN0L30BC20150130
Other Supplemental Articles			
Opec leader vows not to cut oil output even if price hits \$20	Financial Times	December 22, 2014 7:36 pm	http://www.ft.com/intl/cms/s/0/63c7786c-89bc-11e4-8daa-00144feabdc0.html