

# Contra the Heard Update - Bird Construction Inc.

## CONTRA THE HEARD

(Last update: March 16, 2020)

UPDATE March 18, 2020

## VICE-PRESIDENT'S PORTFOLIO

TSX Buy: Bird Construction Inc. (BDT)

Purchase Price	\$4.70
Shares	1500
Buy Limit	\$6.00
Sell Range	\$12.00-\$14.00
Current Price	\$4.79

As COVID-19 spreads and Canada skids towards a lockdown, the vast scale of the economic impact is starting to sink in. The market tries to rally as the government promises help, but that can't make up for lost production or revenues. A severe recession, or worse, is now virtually guaranteed and that doesn't seem to be adequately priced in yet.

This purchase continues our theme of selecting enterprises with cash reserves and little debt. No company is bulletproof during this carnage, but a strong balance sheet buys time, which is critical under the circumstances. Cash stands at \$180.1 million with debt of \$40.6 million and a current ratio of just over 1. And as mentioned with Corby Distilleries, this is a relatively small buy in order to conserve capital.

Bird builds everything from LNG export facilities and light rapid transit infrastructure to mixed use developments and health care facilities. The ticker was trading over \$12.00 for most of the period between 2011 and 2016. It then miscalculated on a few projects which hurt profitability.

A new management team has refined the bidding process and the poorly priced contracts are slowly being worked off. This means going forward the book of business will be higher margin. On the latest conference call, management stated their goal of increasing EBITDA margins from the 2 percent mark back to the 4-5 percent level where they were prior to 2016. They went on to say that reaching this goal will take several years though and COVID-19 will impact business immediately.

BDT has many desirable features. Its valuations are low, and the share count has been stable for a decade at around 43 million. Insiders own 4.5 percent of the enterprise and purchased roughly \$980,000 in stock during

2019. Bird also pays quarterly dividends and has a forward yield of 7.9 percent. That could get cut as the economy tanks, which will likely hurt the share price, but it is in this corporation's DNA to spin off cash to shareholders when available.

When this virus is finally brought under control or simply runs its course naturally, government aid will have to shift from mitigation measures to substantial projects to rekindle the economy. After the 2009 debacle, Bird rebounded beautifully on the back of increased infrastructure spending. We hope that pattern will be repeated.

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