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Industry Comment

Industrial

Frederic Bastien CFA | 604.659.8232 | frederic.bastien@raymondjames.ca

Ben Cherniavsky | 604.659.8244 | ben.cherniavsky@raymondjames.ca

Theoni Pilarinos CFA (Associate) | 604.659.8234 | theoni.pilarinos@raymondjames.ca

Jamil Murji CFA (Associate) | 604.659.8261 | jamil.murji@raymondjames.ca

Greg Jackson (Associate) | 604.659.8262 | greg.jackson@raymondjames.ca

Infrastructure & Construction

Infrastructure & Construction Sector Update: Life After Life After Stimulus

Event

This report provides an update on the Infrastructure and Construction (I&C) sector in light of the recent financial market turmoil and growing economic uncertainty.

Action

One of the key messages in this report is that we do not recommend an overweight exposure to Canada's I&C sector at this point in time. Simply put, we think the visibility is too opaque to suggest that investors take a sizeable position in this space at present. That said, there are a number of high-quality companies in our I&C coverage universe that we advise longer-term investors to buy at their currently discounted prices. Strong Buy-rated SNC-Lavalin and Cervus Corp. top the list. We recommend SNC for its pristine balance sheet; broadly diversified operations; great profitability metrics; and a record backlog of high-margin, low-risk service work. We recommend Cervus for its ample financial flexibility to pursue acquisitions; its 'best in class' track record of earnings growth, ROIC, and free cash flow; and an attractive valuation of just 10.0x our '11 EPS estimate. Among the larger cap dealers, we prefer Outperform-rated Toromont for similar reasons. We also highlight the attractive yields of both Bird Construction (7%) and Russel Metals (6%) among the stocks populating the Contractor and Materials & Engineered Products segments.

Analysis

While industry data may not reflect it—not yet at least—the market appears to be convinced that we are headed back into recession, bringing the construction industry along with it. We believe the relentless negative news flow and heightened degree of economic uncertainty in the financial world will make consumers and, more importantly, companies more reluctant to spend and invest over the coming quarters. As a result, we believe private sector construction activity is poised to weaken as we head into 2012. The recent slowdown in emerging economies and the related pressure on commodity prices also poses a concern given Canada's construction industry large exposure to the resource markets. The good news is that many commodities are still trading above investment threshold levels, and most investments in resource markets require big capital commitments and long gestation periods (making it less likely large projects underway will get called off). To this end, we expect construction activity in the resource markets next year to lose momentum, but not collapse outright as it did three years ago. As for the publicly-funded segment, a commitment by the federal government to shore up its fiscal deficit by 2014 must be weighed against tackling the country's widening infrastructure deficit, and the potential need for further stimulus. Therefore, we conclude that while there will be fewer of those big blue Economic Action Plan signs next year (i.e. federal funding for smaller 'shovel ready' jobs), a sufficient number of large multi-year infrastructure projects will continue to break ground. Finally, we reiterate our belief that despite the numerous challenges that the Canadian economy faces, its construction markets will continue to outperform those of its peers, particularly in the US.

Company	Ticker Primary	Ticker Secondary	Current Price	Target Price (6-12 months)	Dividend Yield	Total Return To Target	Rating
Construction							
Aecon Group	ARE-TSX		C\$7.34	C\$12.50	3%	79%	Outperform 2
Bird Construction Inc.	BDT-TSX		C\$9.56	C\$15.00	6%	49%	Outperform 2
North American Energy Partners	NOA-TSX	NOA-NYSE	C\$5.59	C\$6.75	NM	9%	Market Perform 3
The Churchill Corp.	CUQ-TSX		C\$13.26	C\$21.00	3%	44%	Outperform 2
Original Equipment Manufacturers							
Caterpillar Inc.	CAT-NYSE		US\$79.13	US\$116.00	2%	37%	Outperform 2
Engineering							
Genivar Inc.	GNV-TSX		C\$22.79	C\$33.00	6%	40%	Outperform 2
IBI Group Inc.	IBG-TSX		C\$11.12	C\$16.50	9%	42%	Outperform 2
SNC-Lavalin	SNC-TSX		C\$44.59	C\$60.00	2%	52%	Strong Buy 1
Stantec Inc	STN-TSX	STN-NYSE	C\$23.06	C\$27.00	NA	22%	Outperform 2
Materials & Engineered Products							
Armtec Infrastructure Inc.	ARF-TSX		C\$2.42	C\$3.00	0%	20%	Market Perform 3
GLV Inc.	GLV.A-TSX		C\$4.55	C\$8.00	0%	78%	Outperform 2
ZCL Composites	ZCL-TSX		C\$3.10	C\$3.75	NM	17%	Market Perform 3
Equipment Distributors							
Cervus Equipment Corp.	CVL-TSX		C\$14.22	C\$20.00	5%	32%	Strong Buy 1
Finning International	FTT-TSX		C\$20.22	C\$26.25	3%	32%	Outperform 2
Ritchie Bros. Auctioneers	RBA-NYSE	RBA-TSX	US\$19.40	US\$27.00	2%	29%	Outperform 2
Rocky Mountain Dealerships Inc.	RME-TSX		C\$9.15	C\$15.00	2%	75%	Outperform 2
Strongco Corp.	SQP-TSX		C\$4.46	C\$9.50	NA	94%	Outperform 2
Toromont Industries	TIH-TSX		C\$17.40	C\$22.75	3%	31%	Outperform 2
Wajax Corp.	WJX-TSX		C\$30.99	C\$45.50	6%	25%	Outperform 2
Steel Processors & Building Components							
ADF Group Inc.	DRX-TSX		C\$1.25	C\$2.50	2%	102%	Outperform 2
Canam Group	CAM-TSX		C\$4.00	C\$5.50	0%	38%	Market Perform 3
Russel Metals	RUS-TSX		C\$20.95	C\$27.00	6%	35%	Outperform 2

Raymond James Ltd.

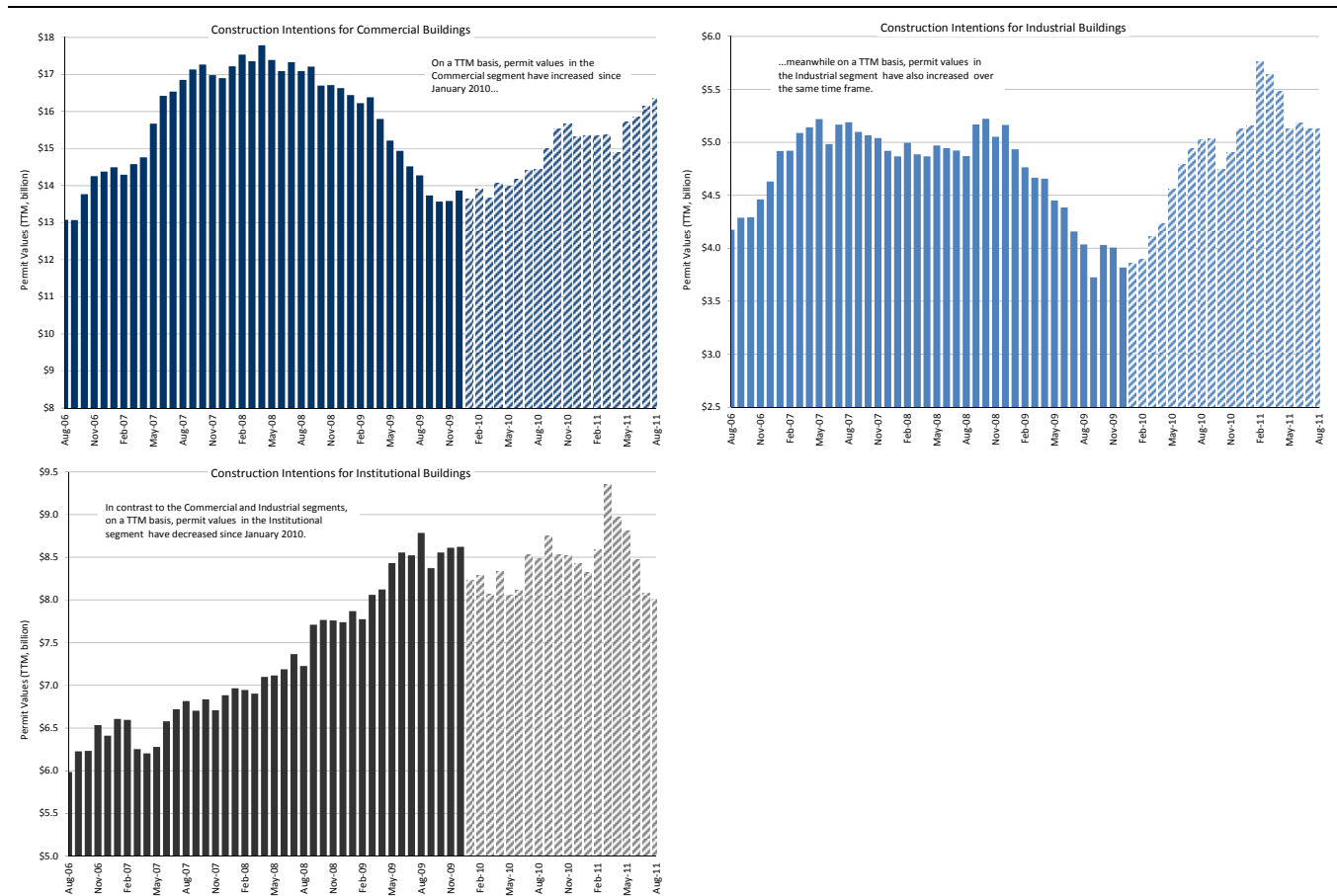
Sector Overview

Perhaps we should have seen it all coming. The broad and brutal correction in stock markets around the world over the past few months has largely been attributed to growing concerns about the poor prospects for economic growth in the coming age of government fiscal austerity. In many respects, this reflects a theme we first established nearly two years ago in an Infrastructure & Construction sector report titled Life After Stimulus (see our Jan-14-10 INsight). Therein we suggested that:

“while stimulus funding is expected to accelerate construction activity in 2010, it also raises important questions about what happens next. Due to mounting fiscal realities, we believe governments will be forced to scale back their funding for these projects by next year....[which will] create some headwinds for construction markets in 2011 and beyond.”

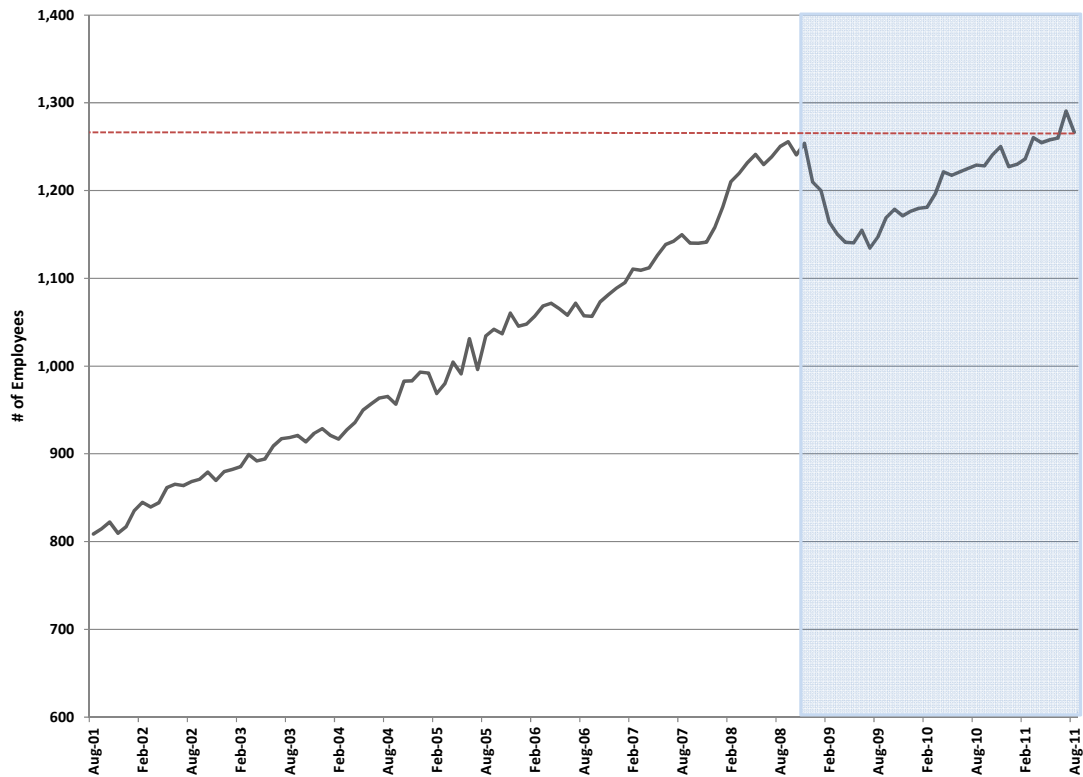
This may, in retrospect, look like a rather prescient (if not superficially obvious) observation. Still, our analysis contained a critical error: we assumed that “the inevitable withdrawal of government funding for public projects should be more than off-set by the spurring of increased privately-funded construction activity.” Up until this summer, the story—in Canada, at least—was playing out that way. For example, while the value of non-residential building permits data was trending down for the institutional category, permit values for commercial and industrial projects were moving up, as were intentions for large-scale engineering construction activity - (see Exhibit 1). Similarly, by Jul-2011, the construction industry in Canada had more than recovered all the jobs lost in the 2009 recession and was back at record employment levels (see Exhibit 2).

Exhibit 1: Canadian Non-Residential Construction Intentions by Segment (TTM)



Source: Statistics Canada, Raymond James Ltd.

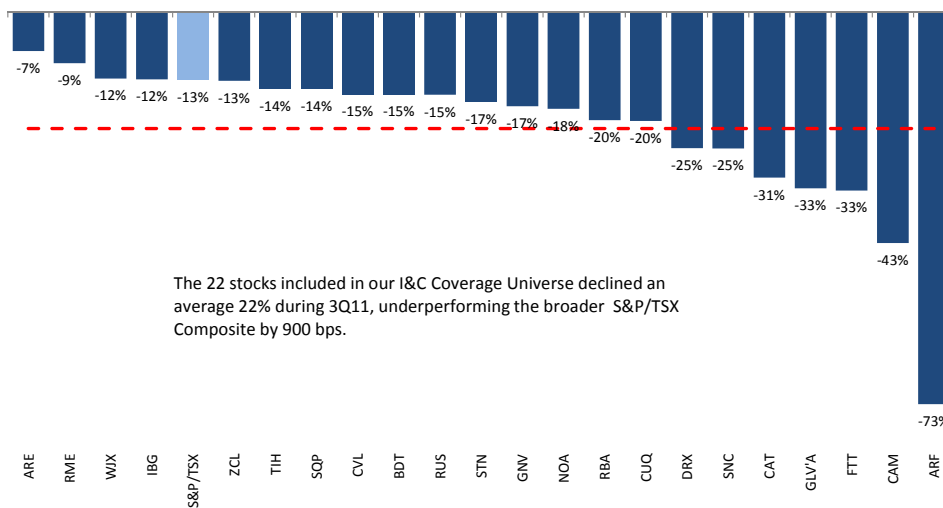
Exhibit 2: Canadian Construction Employment Levels



Source: Statistics Canada, Raymond James Ltd.

Then things suddenly changed. The industry data may not reflect it—not yet at least—but the market appears to be convinced that we are headed back into recession, bringing the construction industry along with it. Accordingly, the value of our I&C index (which represents the 22 companies in our coverage universe) plummeted 22% in 3Q11 (see Exhibit 3) versus the S&P/TSX Composite which was down 13%.

Exhibit 3: Raymond James’ 3Q11 I&C Coverage Universe Stock Price Performance

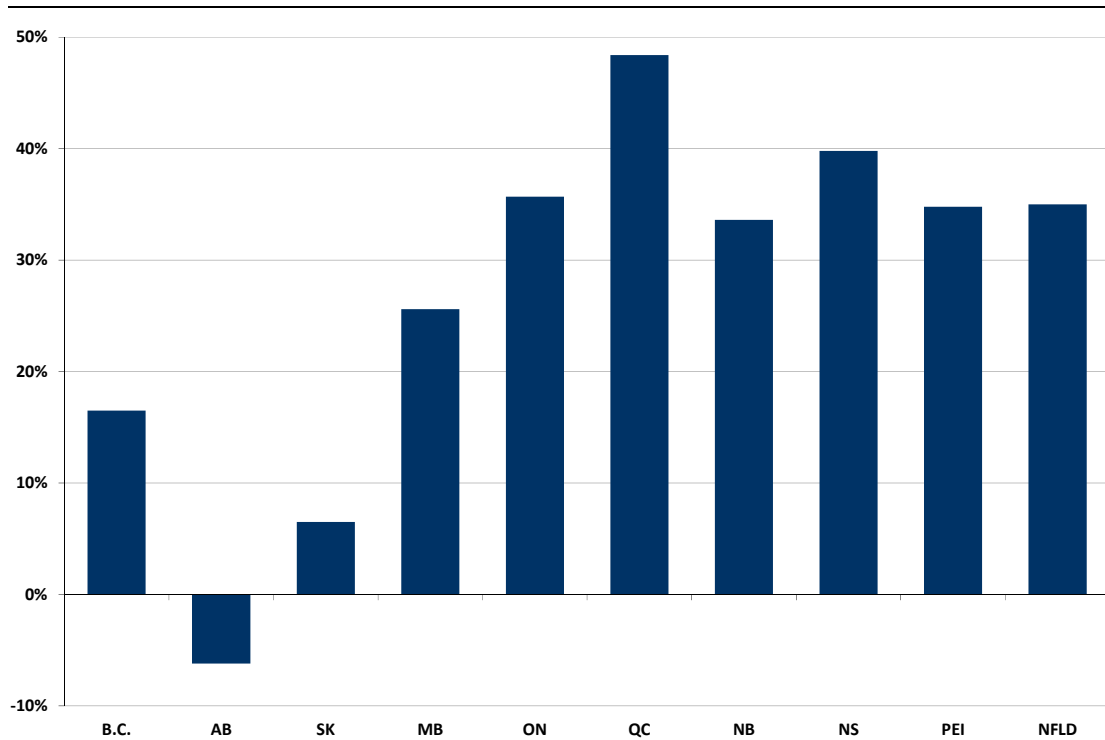


Source: Capital IQ, Raymond James Ltd.

The factors responsible for this dramatic change in momentum will, by now, be very familiar to investors. They include: (i) signs that growth in emerging markets (especially Asia) is slowing after a period of policy tightening that was designed to prevent overheating; (ii) the paralyzed state of US politics, and the ongoing uncertainty about fiscal policy, in the wake of the debt ceiling stand-off this summer; and (iii) the escalating nature of the European debt crisis.

Of course, Canada’s economy, and its construction industry, can still boast some characteristics of relative stability in an otherwise tumultuous world. But for a market that is both small and very open it would be foolish, in our view, to believe that the country will remain isolated from these inimical global events. Furthermore, despite the fact that Canada has so famously outperformed other developed nations, there are still some disconcerting fundamentals to face north of the 49th parallel. Jobs growth over the last couple months, for example, has stalled while the Canadian consumer is becoming increasingly tapped out (Statistics Canada reported last month that household debt as a share of personal disposable income rose to a record 150.8% at the end of June, higher than in the US). Similarly, federal and provincial deficits have expanded and public debt is growing (see Exhibit 4). Over the past year there has also been an increase in regional disparities, intensified labour unrest, and a rising (environmental) backlash towards one of the construction sector’s main engines of growth—namely, the oil sands. To be sure, Canada’s problems may appear relatively small compared to its peers, but it is still worth heeding the old adage that “in the land of the blind the one-eyed man is king.”

Exhibit 4: Projected Provincial Debt-to-GDP Ratios (F2011)



Source: Conference Board of Canada, Globe and Mail, Raymond James Ltd.

Canada’s shifting political landscape further complicates the outlook for its economy and the infrastructure markets in particular. Federally, the first majority government in over seven years has just started parliamentary session. Having campaigned on a commitment to fiscal prudence, the Conservatives are explicitly targeting a balanced budget by 2014. Thus far, their spending cuts appear to be focused more on trimming

bureaucracy than scaling back large public works, although many economists agree that it is hard to see how this initiative alone will close the gap.

Meanwhile, there are five provincial elections this fall and two new premiers (Clark in BC and Redford in Alberta) who have come into office following their predecessor's respective resignations. From what we have seen so far, fiscal restraint has not been a major theme in any of these political arenas (even in Alberta, the new premier-designate was elected with a platform of increased spending for healthcare and education). This could signal continued support for provincial infrastructure funding into 2012, although the legitimacy of such campaign promises is notoriously difficult to predict, as is the bond market's appetite to keep funding deficits with impunity (just ask Greece).

Normally, our commentary doesn't wade this deeply into macro territory. However, in the current environment we find it an impossible topic to avoid, especially when analyzing a sector that is as sensitive to the economy and government spending as construction. With this in mind, we have formulated the following 'big picture' outlook for the I&C markets next year:

- ◆ Our recent channel checks on the construction markets in Canada suggest that activity levels remain very high. However, given the significant damage that's been done to the stock market over the past few months, there is a risk, in our view, that all the fears of another recession will ultimately become self-fulfilling. That is to say, even though the construction industry (i.e. the 'real' economy) in Canada may still boast generally solid fundamentals, the relentless negative news flow and heightened degree of economic uncertainty in the financial world could make consumers more reluctant to spend and, more importantly, companies more reluctant to invest over the coming quarters. As a result, **we are assuming that private sector construction activity will begin to slow in 2012.**
- ◆ To date, a significant part of the recovery in Canada's construction industry has been fuelled by accelerated investments in resource markets. Hence, we view the recent slowdown in emerging economies and the related pressure on commodity prices as a concern. The good news is that despite the dramatic sell off over the past few weeks, many commodities are still trading generally above investment threshold levels. This, combined with the fact that most investments in resource markets (especially mining) require big capital commitments and long gestation periods, makes it unlikely, in our view, that large projects currently underway will get called off. In fact, we are currently witnessing significant capital projects hitting the backlogs of many Canadian contractors, as is traditionally expected of the fall bidding season (see Exhibit 5). The one caveat would be if the stock market's greatest fears come to fruition and we descend back into another full blown credit crisis. Given the current circumstances, we can't afford to be completely dismissive of this risk. Nor can we ignore the increased likelihood that, akin to the point raised above, enough uncertainty about the future prevails to make resource companies proceed more cautiously with new capital investments. This is a particularly important point in the oil sands where the return of cost inflation has made large mining projects less economic even at \$80 oil. In short, **we are not forecasting a complete collapse of construction activity in the resource markets next year, but we do expect the sector to lose momentum as economic growth slows worldwide.**

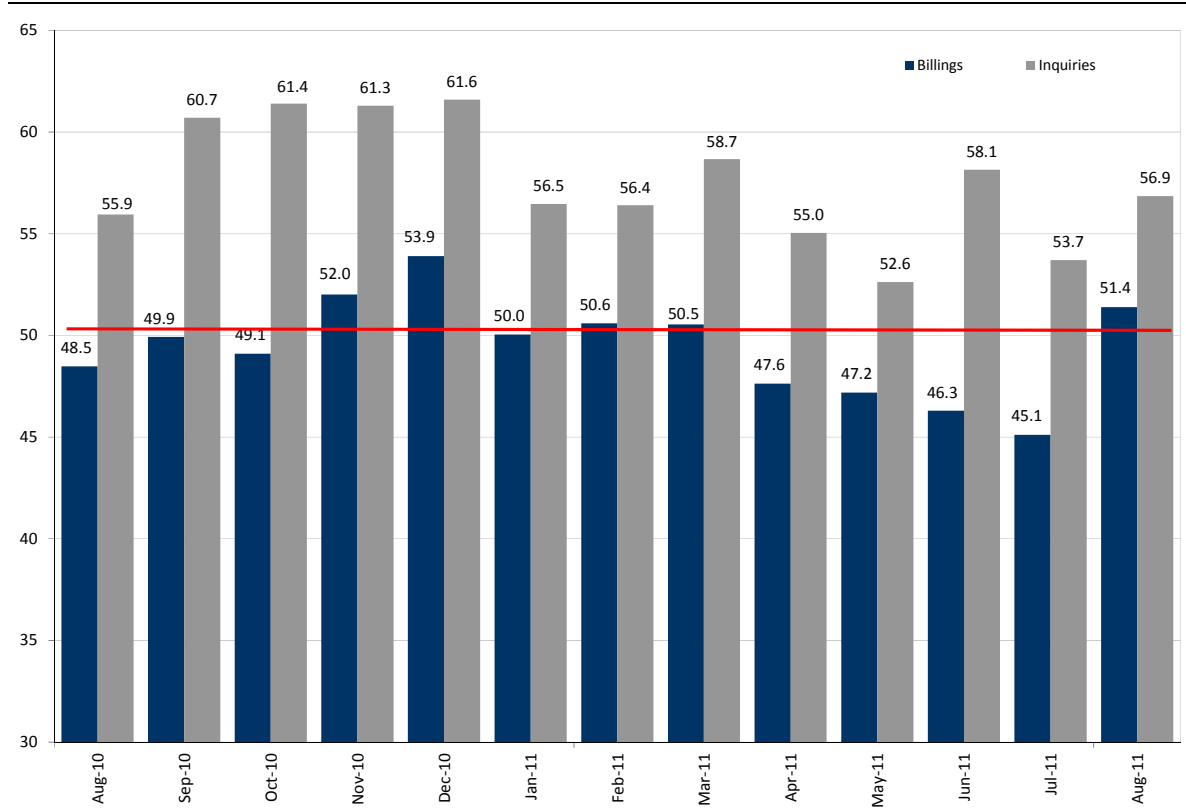
- ◆ We frankly find it difficult to get a clear read of what's in store for the publicly-funded segment of Canada's construction market next year. As noted, the federal majority government is explicitly committed to shoring up its fiscal deficit by 2014, which suggests growth in funding for public works will get increasingly scarce in the future. At the same time, however, the country faces a widening infrastructure deficit that must be addressed. Generally, this is a problem that the federal government has shown some interest in solving (witness the most recent example of a 10-year \$5-bln plan to build a replacement for Montreal's deteriorating Champlain Bridge). As a result, we don't expect infrastructure to be a *major* victim of any new-found austerity in Ottawa. Similarly, the federal government has very recently indicated that its fiscal policies will remain "flexible" in the wake of renewed financial market volatility—meaning, according to most political commentators, that further Canadian stimulus measures may be implemented if the economy significantly worsens. At this juncture, however, that is not the plan. Therefore, **we conclude that while there will be fewer of those big blue Economic Action Plan signs scattered across the country next year (i.e. federal funding for smaller 'shovel ready' jobs will abate), a sufficient number of large multi-year infrastructure projects will continue to break ground** (albeit perhaps at a slightly slower rate). Provincially, the broad commitment to public works will, in our view, provide additional support to the construction industry in the short-term, although we still believe that the long-term sustainability of this trend varies dramatically by region with the western provinces (especially Alberta) maintaining the fiscal upper hand over Quebec and Ontario.
- ◆ Despite the numerous challenges that the Canadian economy faces, we believe that its construction markets will continue to outperform those of its peers, particularly the US. One important corollary to this projection, alas for many of the companies under our coverage, is that Canada's relative resilience should continue to attract an unusually high level of competition from abroad and keep margins tight for domestic players. We have held a rather bleak outlook for the US for a long time and see no compelling reason to alter it. Indeed, although the industry south of the border has shown a few encouraging signs lately of bouncing off the bottom (see Exhibits 6 and 7 for example), the US economy still arguably faces a fiscal dilemma of Brobdingnagian proportions—one that extends from the federal level right down to the municipalities. The political stalemate over this issue also makes it difficult to foresee how certain key issues around, for example, transportation funding will get definitively resolved before the 2012 elections. Similarly, the President's most recent push for a \$450 bln stimulus *redux* program (which includes \$140 bln worth of infrastructure funding) appears unlikely, in our view, to have much impact on the market over the next 6-12 months, assuming it ever sees the light of day.

Exhibit 5: Recent Industrial Contract Wins in Raymond James' I&C Contractor Universe

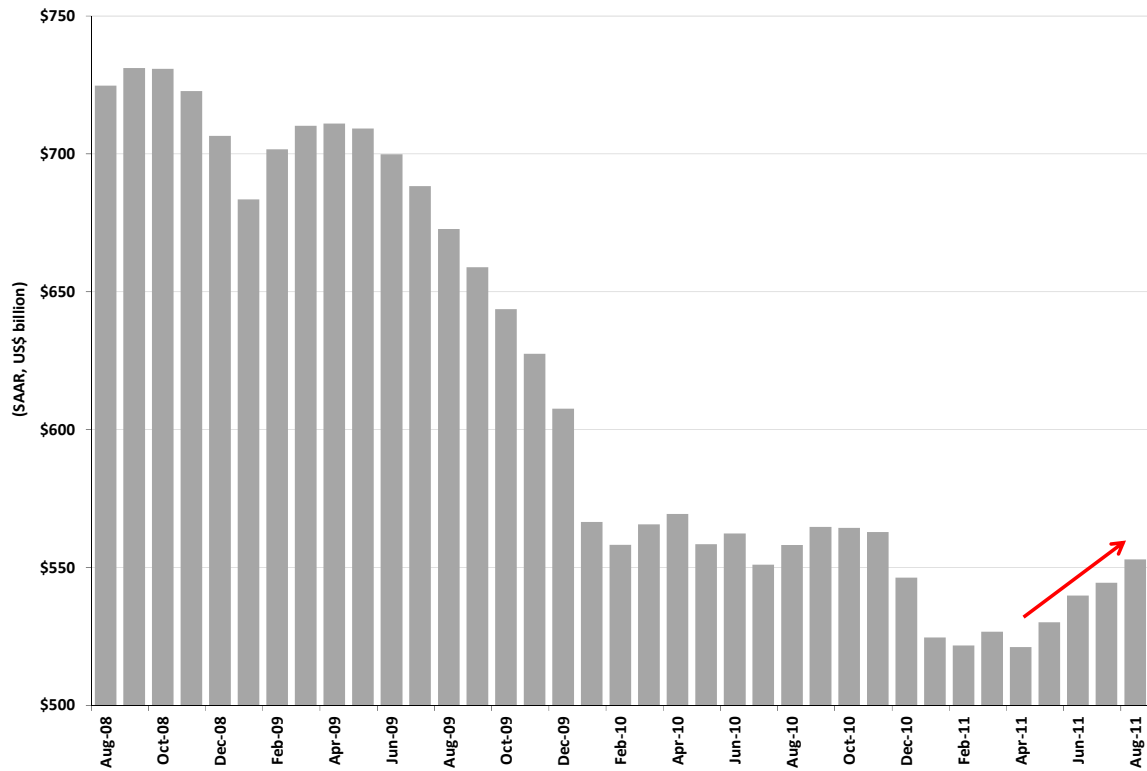
Date	Description	Value
5-Oct-11	Aecon awarded a contract for the installation of mechanical equipment, process and utility piping systems and all electrical and control systems for PotashCorp's Picadilly mine expansion in Penobsquis, New Brunswick	\$250 mln
	Aecon awarded a contract for the installation of interior structural steel, equipment, piping, electrical and control systems at Thompson Creek's Endako molybdenum mine site near Fraser Lake.	
16-Sep-11	Bird Construction secured a unit price contract from ArcelorMittal Mines Canada for the removal of waste rock at the Mount Wright open-pit mine located in Fermont, Quebec.	\$100 mln
31-Aug-11	North American Energy Partners awarded a heavy civil construction contract with Fluor Canada Ltd. at Syncrude's Base Mine relating to the mine train relocations.	\$127 mln

Source: Company reports

Exhibit 6: Architectural Billings Index



Source: American Institute of Architects, Raymond James Ltd.

Exhibit 7: Total US Non-Residential Construction Spending

Source: US Census Bureau, Raymond James Ltd.

Summing it all up, our key message for investors is that **we do not recommend an overweight exposure to Canada's I&C sector** at this point in time. Simply put, we think the visibility is too opaque to suggest that investors take a sizeable position in this space at present. That said, the market already appears to be pricing in many of our macro concerns with most valuations implying a material contraction in earnings next year. In most cases, that is not what we are forecasting in our models. In fact, we still generally forecast 2012 to be another year of growth for the majority of companies in our I&C coverage universe. The magnitude of that growth has come into question and may have to be moderated in the context of our discussion above. We will evaluate that more precisely as 3Q11 results begin to roll out over the next few weeks and the dust starts to settle on the global economy.

In the meantime, we believe there are a number of high-quality I&C companies that longer-term investors should be selectively buying at their currently discounted prices. Our two sector Strong Buy rated stocks include SNC Lavalin and Cervus Corp., but there are a number of other opportunities that we find compelling right now. We have summarized these ideas in the following segmented analysis.

Segmented Analysis

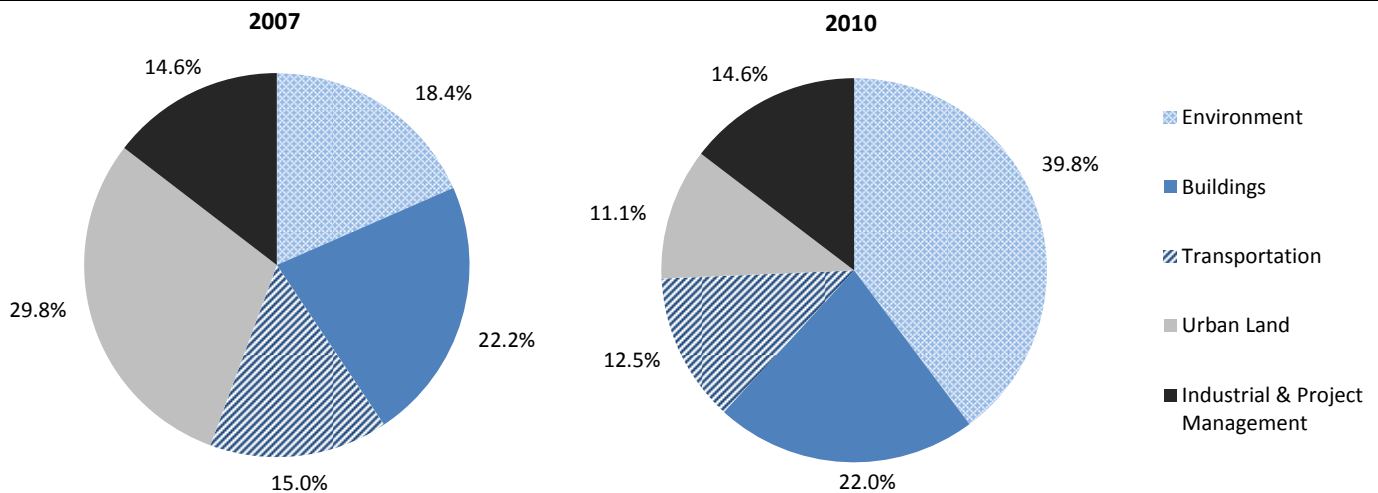
Engineering Firms

Amid the current market volatility, we continue to view SNC-Lavalin as well as the three pure engineering firms comprising our I&C coverage universe in a favourable light. Supporting our stance are the healthy margins and strong cash flow generating potential that their fee-for-service consulting approach affords them. We believe this flexible model not only helps design firm adapt rapidly to changing market trends — be they positive or negative — but also capitalize on them.

For Stantec the proof is in the pudding; since 2007 the company has managed to grow earnings at a compound annual growth rate of 11% by mainly focusing its acquisition efforts on the North American environmental sector (see Exhibit 8). It is clear to us those results would not have been met had Stantec kept growing its urban land business instead. SNC-Lavalin has taken this diversification theme one step further in recent years, growing its global footprint with key acquisitions in emerging countries (including Brazil, Russia, India and Colombia). Based on this — and considering SNC-Lavalin’s pristine balance sheet, track record of dividend increases, industry-leading ROEs and record backlog of high-margin, low-risk Services revenues — we believe its stock should be highly sought after in today’s volatile markets.

But in general, notwithstanding our belief that the four Canadian-based engineering firms boast solid management teams, industry-leading positions, sound business strategies and bright long-term prospects, we are mindful of the challenges each firm faces in the short term. Specifically, we expect: (i) the softer market conditions in the US to continue weighing down on Stantec and (to a lesser extent) IBI Group; and (ii) more headline risk to potentially emerge for Genivar and SNC-Lavalin in Quebec, should the political tensions surrounding corruption in the construction industry flare up again. We reason these companies also stand to face increased competition from global players for as long as Canada remains an opportunity oasis relative to the rest of the developed world, while their valuations will continue to be dictated (read: dragged lower) by those of its US peers. Put simply, we still see some short-term headline risk on the horizon for this group, which is why we aren’t pounding the table on any of these stocks right now (save perhaps for SNC-Lavalin given its unprecedented valuation profile). Still, for reasons that we detailed in our May-03-11 *Designing Impressive Shareholder Returns* Industry Report, we believe this is generally a good time to be investing in the sector for the long run.

Exhibit 8: Evolution of Stantec’s Revenue Mix by Practice Area: 2007 vs. 2010



Source: Stantec, Raymond James Ltd.

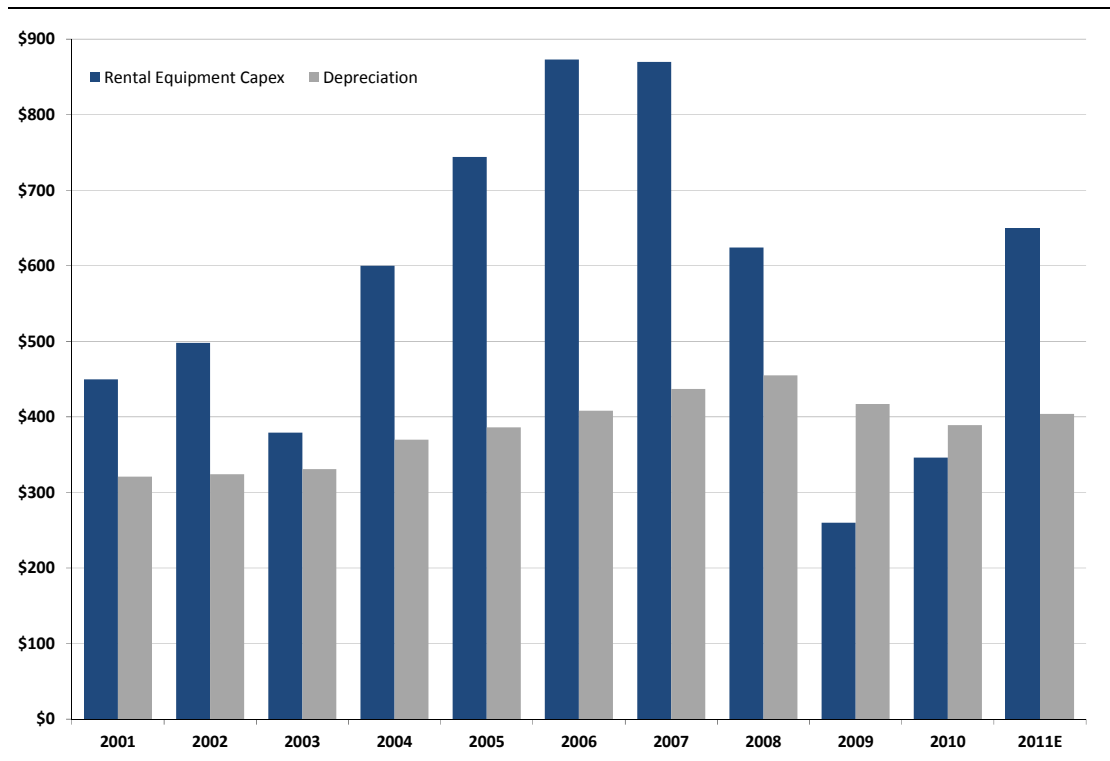
Equipment Distributors and OEMs

We believe that the equipment companies we cover, in particular the dealers, are in a much better position to withstand a potential slowdown than they were in 2008. The cost cutting initiatives, productivity improvements, and careful attention to the balance sheet that generally defined the group’s response to the last recession is partly to credit. But the bigger factor that gives us comfort is on the supply side of the equation.

Although we face a paucity of good, comprehensive global data on machine population, there are a number of indicators that suggest the market is not nearly as bloated as it was leading up to the last crisis. For example, 2Q11 dealer inventories, according to CAT, were 20% below the level reported at 4Q08. Part of this is by design (most of the dealers we cover have espoused more conservative inventory management practices), but it mainly reflects the supply shortages that have defined the industry since the last downturn compelled OEMs to reduce their manufacturing capacity (the earthquake in Japan earlier this year only accentuated this condition).

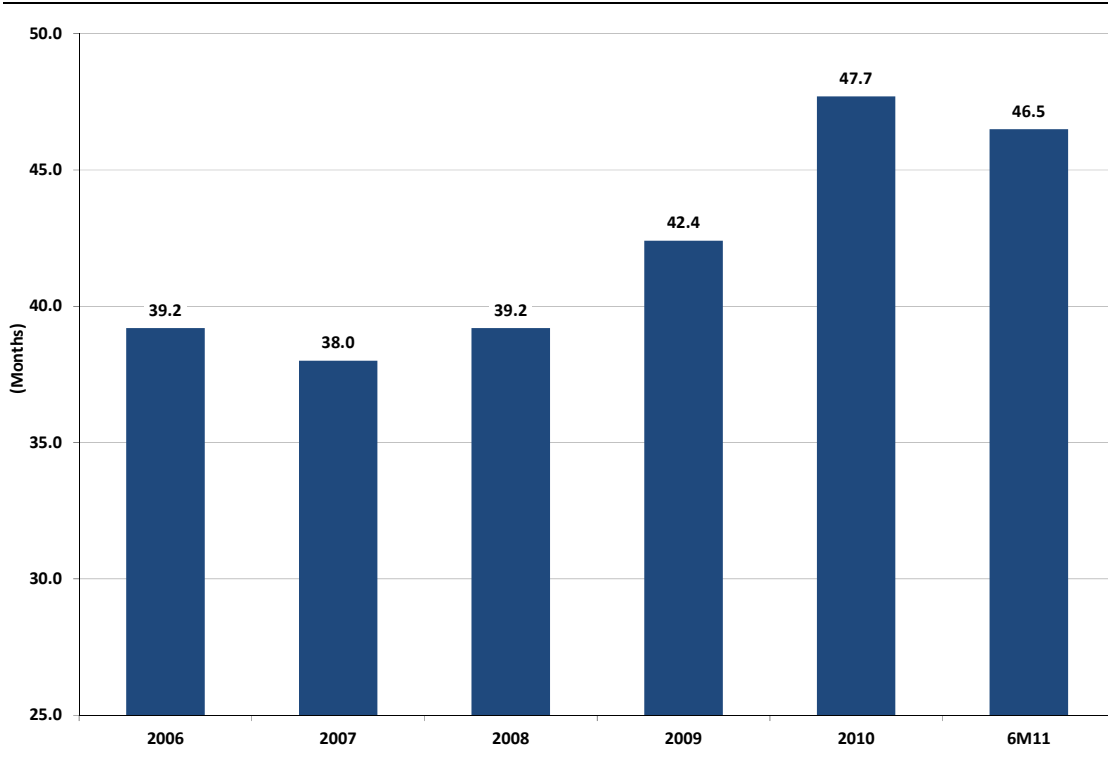
Rental fleets generally tell a similar story about the equipment market’s current capacity footprint compared to three years ago. For example, the capex of United Rentals, North America’s biggest rental construction equipment company, has not kept pace with depreciation over the last two years (see Exhibit 9). This marks a distinct trend reversal from the boom years and suggests that the company has both shrunk and aged its fleet (see Exhibit 10). The same conclusion can be drawn from Rouse Asset Service’s industry-wide data which suggests that the total size of the rental fleet in North America remains almost 20% smaller than it was in Sep-2007 (see Exhibit 11).

Exhibit 9: United Rentals’ Capex and Depreciation (2001-2010)



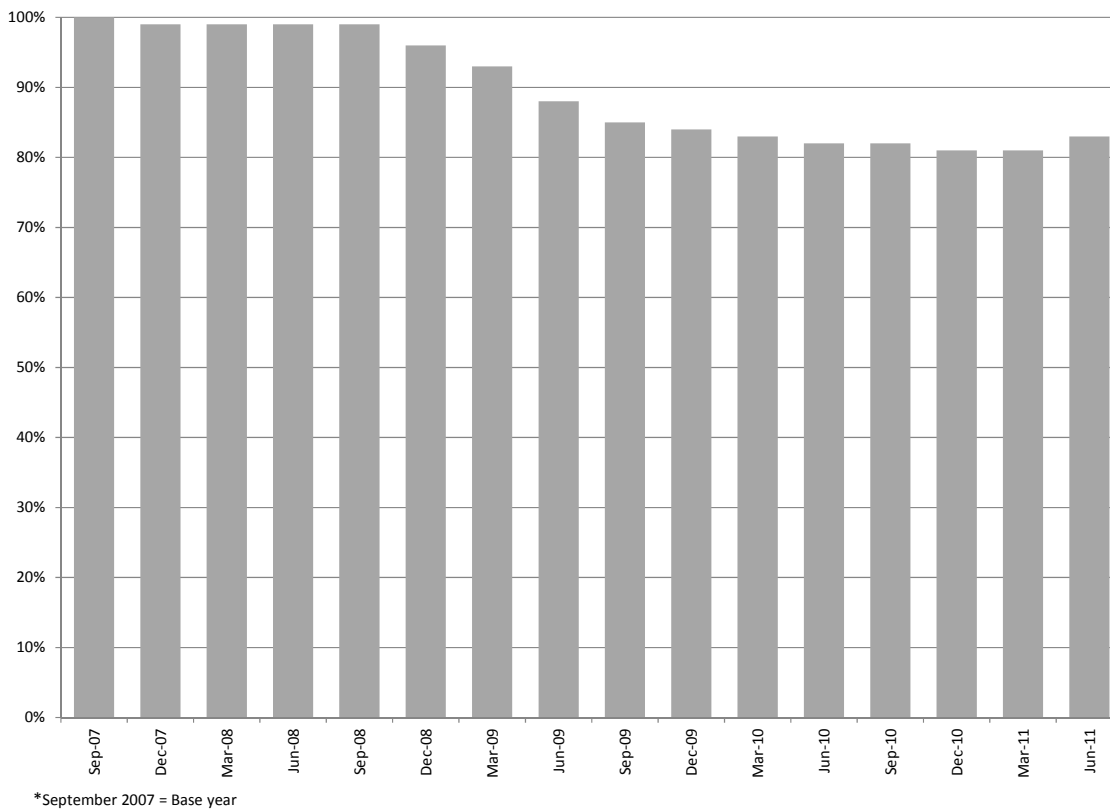
Source: United Rentals, Raymond James Ltd.

Exhibit 10: United Rentals' Average Fleet Age (2006-2010)



Source: United Rentals, Raymond James Ltd.

Exhibit 11: North American Relative Fleet Size for All Equipment Categories



Source: Rouse Asset Services, Raymond James Ltd.

These observations are important because we believe that what really hurt the equipment industry during the last downturn was a sudden collapse in demand that was *preceded by many years of expanding supply*. As a result, almost every dealer in the industry (as well as the rental companies) simultaneously went into mass inventory liquidation mode, which was great for Ritchie's business but highly destructive to industry margins. Our key point is that while we can't rule out another downturn in machine demand for 2012, we do not believe the risks to inventories and, in turn, margins are as high.

In terms of our investment recommendations, we have generally held a broadly bullish view on the equipment sector for at least a year (we reference our Oct-14-10 *Deal Me In!* report for more details). Although this put us badly offside in 3Q11, we do not believe that now is the time to be throwing in the towel given current valuations. That said, we want to provide some discretion on which equipment stocks currently boast the best risk-reward profiles. At the top of our list of eight names remains Strong Buy-rated Cervus which we highlight as our best pick because it has: (i) ample financial flexibility (i.e. no debt) to pursue acquisition opportunities; (ii) a 'best in class' track record of earnings growth, ROIC, and free cash flow; and (iii) an attractive valuation of just 10.0x our 2011 EPS estimate.

Among the larger cap stocks, we prefer Outperform-rated Toromont for similar reasons (strong balance sheet, superb track record, and discounted share price). Finning's stock is 'cheap' too (it is trading below its historical P/E range and also rated Outperform) but we worry about near-term headline risk with respect to its ERP system implementation (see our Sept-30-11 *Looking for a Canary in the Coal Mine, price: \$20.26* Comment for details). There are also some near-term risks on the horizon for Wajax, which is another beaten-up Outperform-rated dealer stock. Specifically, the loss of the Le Tourneau product line is expected to have a negative impact on earnings momentum over the next few quarters. As for Ritchie Bros., we rate its stock Outperform for reasons upon which we expounded in our Sep-19-11 *Evolution of a Category Killer, price: \$21.24* Comment. However, it fails to be at the top of our list mainly because of its premium valuation to the group. Finally, Caterpillar's shares still look attractive to us at the current price, but on a risk-adjusted basis, we prefer the dealers to an OEM at this stage in the cycle. This is mainly because the latter's fixed cost economics offer more upward earnings torque in an up-cycle but more potential downside in a slowdown.

General and Specialized Contactors

In contrast to the above sub-segment, the contractors find themselves in a generally weaker position than three years ago and could see their present challenges persist should the economy and private sector spending reverse trend. They continue to boast solid financial positions and most have strengthened their market positioning through acquisitions, yet the margins currently embedded in their backlogs—while improving since the spring of 2011—are nowhere near the levels that powered record financial results for the group well into 2009. We believe this is reflective of the late-cyclicality of the sector and the resulting drop in demand for the contractor's services, to be sure, but also of the heightened competition that has come from abroad. In a twisted kind of way, the domestic contractors have been victims of Canada's own economic success.

Nowhere has this been more evident than for large-scale public sector work, where P3s have been the vehicle of choice for governments to get new school, hospital and road building projects off the ground. One only has to visit Infrastructure Ontario's website, for example, to see the long list of projects this alternative financing method has spawned. By putting some—if not all—of the public policy debate behind P3s and ensuring a steady stream of business, the province was able to attract many global participants and make the model more efficient. Ontario's global approach did not

eliminate the domestic general contractors from the picture. Far from it. To wit SNC-Lavalin, Bird Construction and large private firms with best-in-class capabilities such as PCL and EllisDon have been very successful in this sector over the past couple of years. But what this approach yielded for the province are increasingly more competitive bids; for our general contractors this has meant much slimmer margins than during the P3s' earlier years of adoption.

Private sector construction has comparatively experienced less competition from international players since 2008. We argue the reasons for this are twofold: (i) up until the last 6-9 months there was a conspicuous lack of low-hanging fruit to prospect in the sector (the few opportunities that transpired proved not only challenging but also unprofitable for those who chased them hard), and (ii) the bulk of the commodity-based work tendered to date is being executed in remote regions, where local knowledge is critical to success. In this regard we believe the Canadian publicly-traded contractors showed considerable foresight when they acquired the likes of Broda Construction, H.J. O'Connell (HJO) and Cow Harbour in the trough of the cycle.

Given the lack of visibility that we have into natural resources-driven construction intentions beyond this fall's busy tendering period, we see no compelling reason to award our highest rating to any of the four contractors we follow. That could change rapidly, however, especially considering the low valuations that are currently applied to the sector and the strategic steps most contractors have taken to ride the next up-cycle. But absent a Strong Buy in this group for the time being, we favour the contractors that pay investors to wait. At the top of the list comes Bird Construction, which yields a dividend of 6.8%. We recommend investors continue to buy shares of this well-run company as we feel they poorly reflect the momentum that is slowly building in the oil sands, where Bird is winning progressively larger jobs at improved margins, and the significant upside potential the recent HJO deal offers.

Aecon Group, we feel, has the best potential to surprise in the next six months. We say this because management's increased focus on execution is only starting to bear fruit, a few completion thresholds provide a clear line of sight on healthy Infrastructure results in 2H11 and the margins embedded in the Industrial backlog are poised to improve with some recent and prospective contract wins. Meanwhile some of the key factors backing our positive stance on Churchill, other than what we view as a downright attractive valuation, are its exclusive focus on Western Canada, recent string of contract wins and attractive yield of 3.6%. Finally, call us gun shy, but we prefer to see better performance execution and/or some clarity on North American Energy Partner's long-term contract with CNRL (CNQ-TSX, Outperform, price: \$30.20) before getting behind this story again.

Materials & Engineered Products

We find it difficult (and simply impractical) to draw general conclusions for the stocks included in this sub-segment of our I&C coverage universe because they are each influenced by unique drivers. Russel Metals' fortunes, for example, inherently move in lockstep with steel prices. And while the recent market uncertainty has caused investors to fear a plunge in steel prices, our research and channel checks suggest a repeat of the ugly 4Q08 days is not in the cards. We say this because today's lower production levels are more in sync with deal demand, HRC and WTI prices are well off their pre-crisis levels, and there is little excess inventory to speak of across the steel supply chain. Moreover, the negative headlines belie surprisingly resilient input costs and levels of commodity-driven activity in North America, which we believe will support stable steel prices for the remainder of 2011 and into 2012. In this context, we feel the risk-reward proposition for those considering investing in Russel is favourable at this time. The company is not only navigating the steel sector's volatility better than at any other point in its history, but also seeing record levels of unconventional oil and gas drilling activity.

Against the current economic backdrop, we argue Russel's healthy dividend also looks particularly attractive.

Canam Group and ADF Group on the other hand, are highly levered to the US commercial construction market—which has yet to show any meaningful signs of a recovery. A similar dynamic exists for ZCL and its US operations. We are constructive on ADF because the small-cap firm is remaining profitable in the trough of the cycle and its shares look deeply undervalued to us (they are trading at a price-to-tangible book value of 0.5x). But we cannot say the same of Canam. While we believe its acquisitions of FabSouth and United Steel Deck will eventually pay handsome dividends, we don't see anything moving the stock in the near term.

Armtec Infrastructure and GLV have both seen their stocks exhibit much volatility over the past few months. We finally got some positive news from the former company last week when it secured an exclusive long-term contract to supply utility vaults and precast underground infrastructure products for BC Hydro. We argue this contract win would not have been made possible without Armtec successfully demonstrating its financial ability to meet the long-term needs of this blue chip customer. We would be remiss to declare Armtec's financial problems a thing of the past, but with Brookfield Asset Management's financial arrangement in place management can now focus on making operational improvements, increasing profitability and deleveraging the balance sheet. As for GLV, strained US municipal budgets and a perilous European economy continue to hamper the company's prospects. At the same time, there is a high level of conviction that Ovivo's execution problems are largely behind the division and we still see a lot of scarcity value and long-term growth potential bottled up in the stock.

Appendix 1: I&C Peer Group Comparables

Company Name	Ticker	Fx	FY END	Market Price	Shares O/S (mln)	Market Cap (mln)	Net Debt (mln)	Ent. Value (mln)	P / E			EV / EBITDA			Net Debt/ Cap (%)	Price /Book (x)	Div. Yield (%)
									2010A	2011E	2012E	2010A	2011E	2012E			
CONSTRUCTION																	
CANADIAN CONTRACTORS																	
AECOM GROUP (core business only)	ARE.CA	CAD	DEC	\$7.34	70.3	\$516	\$182	\$699	16.3	9.5	5.2	11.1	4.0	3.0	26.1	1.0	2.7
BIRD CONSTRUCTION	BDT.CA	CAD	DEC	\$9.56	42.2	\$403	(\$129)	\$274	10.2	16.7	8.3	4.9	6.9	3.3	n.m	2.6	6.9
CHURCHILL CORP-A	CUQ.CA	CAD	DEC	\$13.26	28.4	\$376	\$23	\$399	6.7	10.6	6.2	4.6	5.0	3.5	5.8	1.2	3.6
FLUNT ENERGY SERVICES LTD	FES.CA	CAD	DEC	\$9.98	45.9	\$458	\$153	\$611	13.9	19.7	6.3	4.7	4.8	3.1	25.1	0.8	--
NORTH AMERICAN ENERGY PARTNERS	NOA.CA	CAD	MAR	\$5.59	36.2	\$203	\$317	\$520	n.m	n.m	4.9	n.m	6.2	3.5	61.0	1.5	--
									11.8	14.1	6.2	6.3	5.4	3.3			
U.S. CONTRACTORS																	
EMCOR GROUP INC	EME.US	USD	DEC	\$20.82	66.9	\$1,393	(\$253)	\$1,140	11.4	11.4	9.2	4.7	4.3	3.6	n.m	n.m	1.0
GRANITE CONSTRUCTION INC	GVA.US	USD	DEC	\$19.52	38.7	\$755	(\$94)	\$661	n.m	20.9	13.2	n.m	4.8	3.8	n.m	1.0	2.9
HILL INTERNATIONAL INC	HILL.US	USD	DEC	\$4.91	38.5	\$189	\$66	\$255	13.6	n.m	4.7	8.9	n.m	2.6	25.9	n.m	--
TUTOR PERINI CORPORATION	TPC.US	USD	DEC	\$12.04	47.3	\$569	\$216	\$786	5.7	5.9	5.1	3.9	3.6	3.0	27.5	0.4	--
QUANTA SERVICES INC	PWR.US	USD	DEC	\$19.22	211.3	\$4,062	(\$379)	\$3,683	n.m	n.m	16.7	9.2	9.0	6.5	n.m	1.2	--
									10.2	12.8	9.8	6.7	5.4	3.9			
EUROPEAN CONTRACTORS																	
ACCIONA SA	ANA.ES	EUR	DEC	€ 64.98	63.6	€ 4,129	€ 6,668	€ 10,798	24.7	23.9	18.9	8.9	8.2	7.4	61.8	0.7	7.0
ACS ACTIVIDADES CONS Y SERV	ACS.ES	EUR	DEC	€ 26.73	314.7	€ 8,411	€ 9,609	€ 18,020	8.7	8.9	8.8	12.0	11.8	n.m	53.3	1.5	10.9
BALFOUR BEATTY PLC	BBY.GB	BPN	DEC	£2.56	687.2	£1,757	£92	£1,849	7.4	7.2	7.1	5.7	5.1	4.9	5.0	0.1	5.9
BILFINGER BERGER	GBF.DE	EUR	JAN	€ 57.62	46.0	€ 2,652	-€ 554	€ 2,098	12.4	11.3	10.5	4.1	4.1	3.9	n.m	0.2	4.6
HOCHTIEF	HOT.DE	EUR	DEC	€ 48.28	77.0	€ 3,717	€ 846	€ 4,563	11.2	22.5	9.9	3.3	5.0	3.0	18.5	1.3	4.6
SKANSKA	SKAB.SE	SEK	DEC	97.00 kr	399.9	38,793 kr	-4,168 kr	34,625 kr	10.0	12.5	11.8	5.1	6.1	5.6	n.m	2.0	13.2
VINCI SA	DG.FR	EUR	DEC	€ 33.40	564.2	€ 18,845	€ 14,701	€ 33,546	10.1	9.6	9.1	6.5	6.2	6.0	43.8	1.8	8.3
									12.1	13.7	10.9	6.5	6.6	5.1			
Blended Group Average									11.4	13.5	8.9	6.5	5.8	4.1			
ENGINEERING																	
AECOM TECHNOLOGIES CORP	ACM.US	USD	SEP	\$18.04	119.4	\$2,155	\$815	\$2,969	8.8	7.7	6.5	7.1	5.6	4.9	27.4	1.0	--
AMEC	AMEC.GB	BPN	DEC	£8.24	332.2	£2,736	-£455	£2,281	13.2	12.0	10.4	8.6	7.3	6.3	n.m	0.0	4.4
ARCADIS NV	ARCAD.NL	EUR	DEC	€ 13.66	68.8	€ 940	€ 286	€ 1,226	11.9	11.1	10.0	7.5	7.1	6.9	23.3	2.3	3.5
GENVAR INC	GNV.CA	CAD	DEC	\$22.79	26.0	\$593	\$109	\$702	13.4	11.4	9.9	8.3	7.4	5.6	15.5	1.7	6.6
IBI GROUP	IBG.CA	CAD	DEC	\$11.12	24.1	\$268	\$83	\$351	10.0	12.4	7.4	8.2	7.1	5.6	23.7	1.9	9.9
STANTEC INC	STN.CA	CAD	DEC	\$23.06	45.9	\$1,057	\$316	\$1,373	11.1	10.2	8.5	8.7	7.6	6.4	23.0	1.6	--
TETRA TECH INC	TTEK.US	USD	NOV	\$18.84	62.5	\$1,177	\$17	\$1,194	15.2	13.3	11.6	7.6	6.0	5.5	1.4	1.6	--
									11.9	11.2	9.2	8.0	6.9	5.9			
INTEGRATED ENGINEERING & CONSTRUCTION																	
CHICAGO BRIDGE & IRON	CBI.US	USD	DEC	\$29.65	98.7	\$2,926	(\$290)	\$2,636	14.5	12.0	9.7	7.0	6.1	5.0	n.m	2.8	0.7
FLUOR CORP	FLR.US	USD	DEC	\$50.14	173.8	\$8,715	(\$2,180)	\$6,535	21.8	14.6	12.4	6.9	5.5	4.9	n.m	1.0	1.1
FOSTER WHEELER AG	FWLT.US	USD	JAN	\$19.51	116.9	\$2,281	(\$865)	\$1,416	11.9	12.0	9.2	4.0	4.4	3.4	n.m	4.4	--
JACOBS ENGR GROUP INC	JEC.US	USD	SEP	\$34.17	127.6	\$4,358	(\$223)	\$4,136	13.8	13.2	11.5	7.2	6.8	6.0	n.m	1.5	--
KBR INC	KBR.US	USD	DEC	\$25.01	150.8	\$3,771	(\$610)	\$3,161	12.0	9.3	9.0	4.7	4.6	4.2	n.m	1.7	0.9
SHAW GROUP INC	SHAW.US	USD	AUG	\$21.35	72.2	\$1,542	(\$104)	\$1,439	9.7	n.m	9.5	4.0	n.m	4.2	n.m	1.2	--
SNC-LAVALIN (E&C Business only)	SNC.CA	CAD	DEC	\$44.59	152.0	\$6,776	\$936	\$7,712	9.9	11.8	8.5	4.9	5.6	4.3	12.1	3.5	1.9
URS CORPORATION	URS.US	USD	DEC	\$32.37	79.6	\$2,577	\$324	\$2,901	9.1	9.0	8.3	4.3	4.0	3.9	11.2	0.6	--
WORLEYPARSONS	WOR.AU	AUS	DEC	\$26.87	241.7	\$6,494	\$504	\$6,998	22.3	17.1	14.3	12.3	10.5	9.1	7.2	3.6	3.5
									13.9	12.4	10.3	6.1	5.9	5.0			
ENGINEERED PRODUCTS																	
ALBANY INTERNATIONAL	AIN.US	USD	DEC	\$18.76	31.2	\$585	\$263	\$849	14.1	10.3	9.3	5.7	4.7	4.6	31.0	1.7	3.0
ALFA LAVAL AB	ALFA.SE	SEK	DEC	108.90 kr	419.5	45,679 kr	4,753 kr	50,432 kr	14.8	12.7	11.6	9.7	8.6	7.8	9.4	3.4	2.9
ANDRITZ AG	ANDRAT	EUR	DEC	€ 63.79	52.0	€ 3,317	-€ 1,116	€ 2,201	18.4	15.4	13.6	7.2	6.1	5.4	n.m	4.4	3.0
ARINTEC INFRASTRUCTURE	ARF.CA	CAD	DEC	\$2.42	28.0	\$68	\$273	\$341	n.m	n.m	n.m	7.0	n.m	7.5	80.1	0.5	0.0
CALSON CARBON CORPORATION	CCCL.US	USD	DEC	\$14.54	56.5	\$821	\$11	\$833	19.4	18.0	14.8	10.4	8.8	7.2	1.3	n.m	--
FLOWSERVE CORP	FLS.US	USD	DEC	\$79.13	55.7	\$4,410	\$301	\$4,711	11.5	10.3	8.9	6.9	6.5	5.6	6.4	2.1	1.8
GLV INC	GLV/A.CA	CAD	MAR	\$4.55	44.1	\$201	\$68	\$268	n.m	n.m	9.1	13.0	9.0	5.4	25.2	0.8	--
ITT CORP	ITT.US	USD	JUL	\$43.40	185.3	\$8,042	\$268	\$8,310	9.8	9.1	8.5	5.2	5.0	4.9	3.2	1.8	2.5
KADANT	KAI.US	USD	DEC	\$16.84	12.3	\$208	(\$25)	\$183	11.4	7.8	6.6	5.7	3.8	3.4	n.m	n.m	--
KURITA WATER	6370.JP	JPY	MAR	JPY 2,162	132.8	JPY 287,114	-JPY 59,116	JPY 227,998	16.1	15.6	14.6	5.3	5.1	4.9	n.m	1.4	1.7
METSO OYJ	MEOI.V.FI	EUR	DEC	€ 22.74	150.3	€ 3,419	€ 507	€ 3,926	10.8	9.5	8.1	6.3	5.4	4.8	12.9	1.7	7.7
NALCO HOLDING CO	NLC.US	USD	DEC	\$35.51	138.8	\$4,928	\$2,700	\$7,628	20.8	21.0	17.2	10.2	10.4	9.3	35.4	7.0	0.4
PALL CORPORATION	PLL.US	USD	JUL	\$46.04	116.3	\$5,355	\$150	\$5,505	16.6	14.7	13.1	9.7	9.0	8.1	2.7	3.6	1.7
PENTAIR INC	PNR.US	USD	AUG	\$34.15	98.8	\$3,373	\$1,339	\$4,712	17.1	13.9	12.0	11.3	9.0	8.0	28.4	1.6	2.6
WATTS WATER TECHNOLOGIES INC	WTS.US	USD	DEC	\$26.21	37.2	\$976	\$205	\$1,181	13.6	13.6	10.6	6.7	6.4	5.5	17.4	1.1	1.8
ZCL COMPOSITES INC	ZCL.CA	CAD	DEC	\$3.10	28.8	\$89	\$20	\$110	n.m	16.7	8.9	n.m	8.9	5.6	18.6	2.3	0.0
									15.0	13.5	11.1	8.0	7.1	6.1			

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Company Name	Ticker	Fx	FY END	Market Price	Shares O/S (mln)	Market Cap (mln)	Net Debt (mln)	Ent. Value (mln)	P / E			EV / EBITDA			Net Debt/ Cap (%)	Price /Book (x)	Div. Yield (%)
									2010A	2011E	2012E	2010A	2011E	2012E			
EQUIPMENT DISTRIBUTORS																	
ASHTAD GROUP PLC	AHT.GB	BPN	APR	\$1.38	503.3	\$697	\$848	\$1,544	n.m.	14.9	11.1	5.4	4.8	4.3	54.9	1.6	2.7
CERVUS EQUIPMENT CORP.	CVL.CA	CAD	DEC	\$14.22	15.1	\$214	\$9	\$223	16.1	10.2	8.3	9.1	6.2	5.1	4.0	1.2	5.1
FINNING INTERNATIONAL INC	FTT.CA	CAD	DEC	\$20.22	172.5	\$3,488	\$1,245	\$4,732	17.0	10.8	8.9	10.4	7.6	6.5	26.3	2.7	2.6
H&E EQUIPMENT SERVICES INC	HEES.US	USD	DEC	\$8.57	35.1	\$301	\$329	\$629	n.m.	n.m.	12.2	7.8	4.9	3.7	52.2	1.2	--
RITCHIE BROS AUCTIONEERS INC	RBA.US	USD	DEC	\$18.87	107.0	\$2,018	(\$52)	\$1,967	n.m.	23.3	16.4	14.9	11.9	8.8	n.m.	3.2	2.3
ROCKY MOUNTAIN DEALERSHIPS	RME.CA	CAD	DEC	\$9.15	21.5	\$197	\$195	\$392	11.0	7.6	6.1	11.6	7.8	6.2	49.7	1.7	2.0
RUSH ENTERPRISES INC	RUSHA.US	USD	DEC	\$9.25	27.2	\$252	\$514	\$765	14.4	7.3	5.4	13.3	7.2	5.4	67.1	0.7	--
SPEEDY HIRE PLC	SDY.GB	BPN	MAR	\$0.22	517.2	\$112	\$115	\$227	n.m.	12.4	n.m.	3.9	3.2	2.9	50.4	0.0	0.0
STRONGCO CORP.	SDP.CA	CAD	DEC	\$4.46	13.2	\$59	\$107	\$165	n.m.	5.1	4.7	7.3	4.4	3.6	64.5	1.0	0.0
TITAN MACHINERY INC	TITN.US	USD	JAN	\$18.54	20.8	\$385	\$428	\$813	15.1	11.1	9.9	15.3	11.6	10.2	52.7	n.m.	--
TOROMONT INDS LTD	TIH.CA	CAD	DEC	\$17.40	77.6	\$1,350	\$115	\$1,465	18.2	14.7	13.4	9.3	8.2	7.4	7.8	3.7	2.5
UNITED RENTALS INC	URI.US	USD	DEC	\$19.62	61.1	\$1,198	\$2,918	\$4,116	n.m.	13.7	8.3	6.0	4.8	4.1	70.9	n.m.	--
WAJAX CORP.	WJX.CA	CAD	DEC	\$30.99	16.9	\$524	\$94	\$618	15.1	9.0	8.8	9.5	6.4	6.4	15.2	2.4	7.7
									15.3	11.7	9.5	9.5	6.8	5.7			
ORIGINAL EQUIPMENT MANUFACTURERS																	
AGCO CORP	AGCO.US	USD	DEC	\$34.90	96.5	\$3,367	\$155	\$3,521	15.0	8.6	7.8	7.3	4.6	4.2	4.4	1.2	--
CATERPILLAR INCORPORATED	CAT.US	USD	DEC	\$75.52	667.2	\$50,387	\$23,667	\$74,054	18.0	11.2	8.4	11.8	8.0	6.3	32.0	4.0	2.3
CNH GLOBAL NV	CNH.US	USD	DEC	\$27.09	238.4	\$6,459	\$12,109	\$18,568	13.0	7.9	7.1	n.m.	10.4	9.4	65.2	0.9	--
DEERE & COMPANY	DE.US	USD	OCT	\$65.70	413.9	\$27,195	\$22,855	\$50,050	14.1	10.2	9.1	11.6	11.4	10.4	45.7	4.4	2.7
DOOSAN INFRACORE	042670.KR	KRW	DEC	KRW 16,950	168.6	KRW 2,857,024	KRW 4,888,438	KRW 7,745,462	n.m.	5.9	5.2	n.m.	n.m.	n.m.	63.1	n.m.	--
HARSCO CORP.	HSC.US	USD	DEC	\$21.14	80.7	\$1,706	\$860	\$2,566	23.2	15.0	10.8	5.4	4.9	4.4	33.5	1.2	4.5
HITACHI	6305.JP	JPY	MAR	JPY 1,368	215.1	JPY 294,277	JPY 272,830	JPY 567,107	n.m.	13.0	10.0	n.m.	5.7	4.9	48.1	0.9	1.6
TEREX CP	TEX.US	USD	DEC	\$11.69	109.6	\$1,281	\$470	\$1,751	n.m.	24.1	6.2	n.m.	5.9	3.1	26.8	0.6	--
VOLVO AB	VOLVB.SE	SEK	DEC	72.70 kr	1,464.9	106,498 kr	93,933 kr	200,431 kr	13.6	8.0	7.3	7.3	4.8	4.6	46.9	2.0	3.8
									16.2	11.5	8.0	8.7	7.0	5.9			
STEEL RELATED STOCKS																	
FABRICATORS & PROCESSORS																	
ADF GROUP INC.	DRX.CA	CAD	JAN	\$1.44	33.4	\$48	(\$21)	\$27	13.2	13.0	9.3	2.5	2.7	2.1	n.m.	0.5	1.4
CANAM GROUP INC	CAM.CA	CAD	DEC	\$3.54	45.4	\$161	\$253	\$413	n.m.	n.m.	17.6	n.m.	n.m.	8.9	61.1	0.5	0.0
GIBBALTAR INDUSTRIES	ROCK.US	USD	DEC	\$8.78	30.4	\$267	\$206	\$473	n.m.	13.3	10.2	11.1	5.7	4.3	43.5	n.m.	--
NCI BUILDING SYS INC	NCS.US	USD	DEC	\$7.73	20.0	\$154	\$78	\$232	n.m.	n.m.	n.m.	n.m.	7.0	2.7	33.6	n.m.	--
VICWEST INC.	VIC.CA	CAD	DEC	\$8.09	17.2	\$139	\$87	\$227	10.4	10.9	6.0	10.6	7.7	5.0	38.5	2.5	11.2
									11.8	12.4	10.8	8.1	5.8	4.6			
SERVICE CENTERS																	
AM CASTLE & CO.	CAS.US	USD	DEC	\$11.92	23.0	\$275	\$55	\$329	n.m.	18.5	8.9	n.m.	8.4	5.2	16.6	0.9	--
CARPENTER TECHNOLOGY CORP.	CRS.US	USD	JUN	\$45.07	44.2	\$1,991	(\$16)	\$1,975	28.3	17.5	12.0	12.1	7.6	5.9	n.m.	2.6	1.7
RELIANCE STEEL & ALUMINUM CO.	RS.US	USD	DEC	\$36.10	74.9	\$2,703	\$1,020	\$3,724	13.8	8.1	7.0	7.7	5.2	4.6	27.4	1.0	1.5
RUSSEL METALS	RUS.CA	CAD	DEC	\$20.73	66.8	\$1,386	(\$100)	\$1,286	17.8	10.9	9.9	8.7	5.9	5.5	n.m.	1.6	5.8
WORTHINGTON INDS INC	WOR.US	USD	MAY	\$14.88	72.6	\$1,081	\$423	\$1,503	10.0	8.9	7.6	8.4	7.2	8.1	28.1	1.5	3.5
									17.5	12.8	9.1	9.2	6.9	5.9			
STEEL PRODUCERS																	
AK STEEL HOLDING CORP.	AKS.US	USD	DEC	\$6.67	110.3	\$735	\$880	\$1,616	n.m.	14.1	5.5	10.6	5.1	3.5	54.5	1.1	3.5
ALLEGHENY TECHNOLOGIES	ATI.US	USD	DEC	\$37.23	106.3	\$3,959	\$1,283	\$5,242	n.m.	13.8	8.7	16.0	6.8	4.7	24.5	1.8	2.1
COMMERCIAL METALS COMPANY	CMC.US	USD	AUG	\$9.72	115.5	\$1,123	\$1,140	\$2,263	n.m.	n.m.	6.6	n.m.	8.5	4.5	50.4	0.9	5.5
NUCOR CORPORATION	NUE.US	USD	DEC	\$32.87	316.1	\$10,389	\$2,096	\$12,485	n.m.	13.3	9.6	11.9	6.1	4.9	16.8	1.5	4.7
OLYMPIC STEEL INC.	ZEUS.US	USD	DEC	\$16.68	10.9	\$182	\$89	\$271	n.m.	7.4	6.5	12.3	4.5	3.9	32.8	0.7	0.5
STEEL DYNAMICS INCORPORATED	STLD.US	USD	DEC	\$10.37	218.7	\$2,268	\$2,102	\$4,369	15.5	7.9	5.9	7.3	5.1	4.3	48.1	1.1	4.3
US STEEL CORP.	X.US	USD	DEC	\$21.94	144.0	\$3,159	\$3,508	\$6,667	n.m.	16.1	5.4	12.2	4.9	3.5	52.6	0.8	1.0
									15.5	12.1	6.9	11.7	5.9	4.2			
									n.m.	12.4	8.9	8.7	6.2	4.9			

Notes:
 1) Estimates for ARE, ARF.UN, BDT.UN, CAM, CAT, DRX, CVL, CUQ, FTT, GLV.A, GNV.UN, IBG.UN, NOA, RBA, RME, RUS, SNC, STN, TIH, WJX.UN and ZCL are from Raymond James; all other estimates are consensus from Thomson One.
 2) Net debt (cash) positions for the contractors (ARE, BDT and CUQ) exclude non-recourse project debt and restricted cash balances; net debt (cash) positions for the engineering firms (GNV, IBG and STN) include balances of purchase price payable.
 3) Net debt (cash) position for Aecon is shown proforma of the Cow Harbour asset purchase, Cross Israel Highway interest sale, proceeds from the sale of its 15% interest in Churchill, and \$92 mln convertible debt offering.
 4) 2010 P/E calculations for Bird Construction, Cervus Equipment, Genivar, IBI and Wajax are tax effected to provide more accurate comparisons between companies.
 5) P/E and EV/EBITDA calculations for Aecon have been adjusted to reflect the company's interest in the Quito International Airport concession, which we currently estimate at \$1.39 per share.
 6) P/E and EV/EBITDA calculations for SNC-Lavalin are for the engineering and construction business only; they exclude the company's Infrastructure Concession Investments, which we currently estimate at \$21.65 per share.
 7) Our target price for CVL includes the present value of tax losses that amount to ~\$3.50/share
 8) Our net debt calculations for RME and CVL include our estimate of the interest bearing portion of their floor plan financing

Source: Capital IQ, Thomson ONE, Raymond James Ltd.

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