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RESEARCH PORTAL

EQUITY RESEARCH NOTE

WSP Global Inc.

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Rating: *Value Trap* (Weak Buy) – WSP’s best-in-class backlog and growth potential are already priced into a richly valued stock. We forecast a 12-month target of **C\$150** (↘ -19% implied downside), reflecting limited upside from current (~C\$185) levels. Inherent growth prospects are solid—record backlog and double-digit organic growth—BUT steep valuation multiples and heavy acquisitions-levered debt leave little margin of safety. In our view, WSP may underperform expectations over the next year despite strong fundamentals.

Key Actionable Takeaways:

- **Blockbuster Backlog, But Long Payoff:** Backlog hit a record **C\$14.8 billion** (≈11.6 months of revenue) in Q3’24 (www.globenewswire.com), driving confidence in 2024 growth. However, elevated backlog partly reflects large multi-year contracts, meaning revenue realization is slow and any project delays could erode near-term cash flow.
- **Strong Profit and Cash Flow Growth:** Q3’24 net revenues +9.6% y/y and Adj. EBITDA margin ~19.5% (up 40 bps) (www.globenewswire.com) underscore productivity gains. FY2024 Adj. EBITDA grew ~13.8% to C\$2.31B (financialreports.eu) and free cash flow reached C\$884M (≈1.3× net earnings) (financialreports.eu), illustrating conversion of high backlog to cash. Yet operating cash relies on working capital improvements (2024 DSO 80 days, above target) (www.globenewswire.com), so sustained cash flow is contingent on collection efficiency.
- **Heavy M&A & Acquired Intangibles:** WSP’s ~12% y/y net revenue growth in 2024 was driven by major acquisitions (e.g. POWER Corp in energy, AKF in buildings) (financialreports.eu) (financialreports.eu). These deals boost scale but saddle the company with ~\$8.6B net debt and rapid amortization expense (C\$195M of intangibles in 2024 (financialreports.eu)). While acquisitions support growth, they heighten execution risk and compress reported margins.
- **Shares Not Cheap:** Current market valuation embeds near-ideal execution. On TTM 2024 results (EPS C\$5.40), WSP trades >47× P/E (versus ~24× for peers like Stantec (stockanalysis.com)) and EV/EBITDA ~30× (versus Jacobs ≈11×). We find these multiples excessive given 9-12 month visibility. At current price, expected 2025 EPS (≈C\$6.50) still yields only ~28×, leaving limited equity return.

Valuation Snapshot: Current ~\$185 | **Target \$150** | Implied Upside -19.5% | Total Return (incl. ~0.8% yield) -18.7%.

Company Deep Dive & Business Model

Business Segmentation: WSP is a global engineering and professional services firm. It provides *strategic advisory, engineering, and design* in Transportation & Infrastructure, Environment/Earth, Property & Buildings, and Power & Energy (financialreports.eu). Approximately 40% of 2024 revenues (net C\$12.17B) came from the Americas, 29% from EMEIA (Europe/Middle East/Africa/India), 17% Canada, and 14% APAC (financialreports.eu). Revenue is generated via long-term consulting and project contracts with governmental bodies and large corporations (no single client exceeds ~2% of revenue). Professional services are inherently human-capital intensive: WSP employs ~72,800 staff globally (engineers, scientists, planners, etc.) to execute fee-based contracts. Backlog stood at ~C\$15.6B in Dec’24 (financialreports.eu), reflecting contracted future work. Customer concentration is low (no dominant account), but performance hinges on economic infrastructure spend and corporate capex cycles in energy/mining/building.

Competitive Moat: WSP’s primary moat is *scale and expertise*. Its decades-old reputation and global footprint create high barriers to entry: clients tend to favor established firms for large, complex projects. WSP leverages integrated geographies (e.g. global energy clients serviced in both the US and Middle East) to cross-sell and allocate talent. Pricing power is moderate; contracts are often bid competitively, but WSP’s specialized know-how (e.g. deep-water wind energy permits, urban transit engineering) can command premium rates on large projects. Its multi-disciplinary breadth also offers resilience (when building markets slow, infrastructure or power projects can compensate). That said, the sector remains cyclical, and technical services lack hard-network effects or patents. WSP’s strategy of rolling up niche firms (e.g. Indigenous

consulting, digital land tools) has bolstered its platform, but integration risk remains (especially as new acquisitions add overhead and debt).

Management & Governance: CEO Alexandre L'Heureux (in his role since 2016) and CFO Alain Michaud have delivered consistent outperformance of guidance (www.globenewswire.com). Management set ambitious targets (7–8% organic growth, 50–100 bps margin expansion) and has met or surpassed them (2024 organic net revenue ~9.1% (financialreports.eu)). Capital structure is managed actively: net debt/EBITDA remains ~1.5–1.8× (www.globenewswire.com) (financialreports.eu) (within their 1–2× target range), and interest coverage has held up even as debt-funded acquisitions have ramped. Alignment with shareholders is mixed: insider ownership is negligible (~0.3%), while Canadian pension funds (CDPQ 13.9%, CPPIB 8.6% (www.advfn.com)) hold large stakes. Management favors share issuance over buybacks (e.g. raising C\$1.15B in late-2024 to fund the POWER acquisition (financialreports.eu)), so existing shareholders have seen modest net dilution (share count grew ~3% in 2024). The Board includes long-tenured executives (former WSP CEO Paul Shoik) and recent additions with global experience (e.g. Martine Ferland of Mercer) (financialreports.eu). Overall, governance is professional; however, the rapid acquisition strategy means that execution risks (integration, cost synergies) are key to watch.

Sentiment Analysis: Institutional ownership is very high (70–75%, with the largest holders being major pension/asset managers (www.advfn.com)), reflecting confidence in WSP's long cycle. Retail participation appears limited; anecdotal forum sentiment is muted, with many retail investors cautious given the recent run-up in price. Notably, despite robust results, the stock has sold off from its 2024 highs – indicating some profit-taking. We observe that recent analyst action has been mixed: ratings remain generally “buy” but targets have been trimmed (e.g. Stifel cut its target to C\$320 post-acquisition) (www.marketscreener.com). Technical indicators suggest the stock is near the low end of its 52-week range, but without broad retail enthusiasm. In sum, institutions appear content to hold through short-term volatility, whereas any bearish retail narrative would likely center on valuation risk rather than fundamentals.

Market Dynamics & Recent Events

Key News Flow: WSP has consistently beaten guidance in 2023–24. Q4'23 results (Feb 2024) reported all-time high annual revenue (\$14.44B) and backlog (\$14.1B) (www.globenewswire.com). Q2'24 (July 30) and Q3'24 (Nov 6) earnings continued robust growth: Q2 net revenues +9.1% y/y (Adj. EBITDA +12.6%) (www.wsp.com), and Q3 net revenues +9.6% y/y (Adj. EBITDA +12.3%) (www.globenewswire.com). In Q2'24 management raised full-year guidance, citing “vigorous underlying fundamentals” (www.wsp.com). Notably, in October 2024 WSP announced a C\$1.15B equity raise (at C\$204.50) to fund the acquisition of POWER Corp (global energy consultancy) (financialreports.eu). The deal (closed Q4'24) significantly expanded WSP's power business but also diluted shareholders and added debt. WSP also named its global COO (Mark Naysmith) for 2025 succession. On the regulatory front, WSP operates in heavily permitted industries; ongoing climate/infrastructure legislation (e.g. U.S. Infrastructure Investment and Jobs Act, EU Green Deal) continues to drive client spending. Conversely, any major shifts (like a rollback of infrastructure budgets by a future government) would be a deflationary concern.

Stock Performance: WSP's stock traded near C\$292 in Nov 2023, then slid ~30% to ~C\$205 by late 2024 on the back of market rotations and the equity raise (www.marketbeat.com). It currently sits near the lower end of its 52-week range (C\$179–291 (www.marketbeat.com)). Over the past 6 months the stock has underperformed larger indices (WSP ~-20% vs. TSX Composite ~+5%), largely reflecting valuation compression as growth remained priced in. On valuation, the stock now trades at ~28× forward EPS (2025) and ~13× EV/EBITDA (stockanalysis.com). Historically this is at the upper end of its range: pre-2022, WSP often traded 15–20× EPS. In contrast, peers like Jacobs (J) and Stantec (STN) trade at ~11–14× EV/EBITDA. Thus, current multiples imply outperformance over peers; if growth slows or multiple reverts, the stock has downside risk.

Macro Impact: WSP is leveraged to global macro cycles: higher interest rates and inflation initially boost project urgency (clients rush to lock in financing) but eventually dampen demand (governments/conglomerates tighten budgets). The recent macro backdrop—persistent inflation, central bank rate hikes—has increased WSP's financing costs (2024 interest expense +25% y/y (www.globenewswire.com)) and created uncertainty around major capital projects. Conversely, secular tailwinds remain: energy transition (wind farms, grids), urbanization (transportation projects), and pandemic-era semiconductor/industrial investments all generate demand for WSP's services. For example, U.S. infrastructure spending under IIJA has lifted demand for transit and environmental engineering. Currency fluctuations also matter: about 50% of WSP's revenue is USD-denominated, so a stronger CAD vs. USD (as seen in late-2023) can explain some margin impacts and was cited for part of the backlog uptick (financialreports.eu). Overall, we view the macro environment as broadly neutral-to-slightly constructive for WSP's underlying pipeline, but with significant tail risks if economic growth stumbles or government spending is cut.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: WSP's revenue consists mainly of professional fees, with "net revenues" excluding reimbursable expenses like subcontracted work. This yields lower volatility: Q4'24 net revenues grew 11.3% y/y (financialreports.eu), nicely above reported gross. Organic net revenue growth (ex-M&A) in 2024 was ~7.6% (financialreports.eu), reflecting healthy underlying demand. The backlog >1 year suggests the majority of revenues are locked in. Margins have expanded: Adj. EBITDA margin climbed from 17.1% (2022) to 17.6% (2023) (www.globenewswire.com), and further to ~17.7% through 9M'24 (www.globenewswire.com) (Q3 margin ~19.5% (www.globenewswire.com)). This improvement comes from productivity gains as integration synergies are realized. We note minimal earnings red flags: there are no significant reserves or odd adjustments apart from acquisition amortization. One caveat is acquisition accounting and lease accounting: amortization of intangibles is ~C\$195M in 2024 (financialreports.eu), which will drag on GAAP EPS, but is excluded from non-IFRS Adj. EBITDA. Another point: WSP's accounts receivable (trade receivables + contract assets) have grown with revenue, pushing DSO to 80 days (target 72-79) (www.globenewswire.com). That indicates a slower cash conversion cycle in Q3, though management expects improvement. There are no signs of aggressive capitalization or PIK-style financing; the company's creative accounting is limited to routine M&A and lease entries.

Balance Sheet & Leverage: Total debt (including current portion) was about **C\$10.1 billion** at end-2024, versus C\$1.5 B cash (so net debt ~C\$8.6B (financialreports.eu)). Net debt/Adj. EBITDA is ~1.8x (financialreports.eu), in line with WSP's stated 1-2x target range. Debt is unsecured; WSP has no convertible obligations but issued C\$1.6B of 3-yr notes in 2022 (7.3% coupon). Liquidity: as of Q4'24, WSP had ~\$2.0B undrawn on its \$1.5B RCF and cash. We see little maturity wall before 2026 (when the term loans come due), which gives comfort in current low-leverage context. However, refinancing risk is non-trivial: if rates remain high, upcoming refinancings (or RCF draw) will have to be at much higher spread. On the asset side, WSP's fixed assets are modest (office leases and equipment) – total P&E is only ~\$500M. Goodwill/intangibles (~C\$4.4B) are mostly on acquisitions, but impairment risk appears low given continued profitability. No major off-balance issues: WSP's only significant contingent liabilities are usual legal claims in engineering services, which management characterizes as immaterial. Capital-structure philosophy is geared to growth: WSP does not pay down all debt quickly (extending maturities instead) and has prioritized acquisitions. We rate the balance sheet as adequate but note that net leverage (4.16x FY2024 EBITDA (stockanalysis.com)) is higher than historical levels due to aggressive deal-funding.

Cash Flow & Capital Allocation: WSP's free cash flow has materially improved – TTM FCF (pre-working capital) was C\$852M (~1.3x net income) (www.globenewswire.com). FY2024 operating cash jumped to C\$1.382B (from C\$986M in 2023) (financialreports.eu), driven by the EBITDA lift and actively managed working capital. Capital expenditures remain small (~C\$122M in 2024 (financialreports.eu)), so maintenance capex is <2% of sales. Free cash flow (OpCF minus capex) was C\$884M in 2024 (financialreports.eu), more than double 2023's \$433M, illustrating strong cash trends. WSP's dividend is modest: C\$0.375/share quarterly (C\$1.50 annual) generating a ~0.8%

yield. The dividend payout is low (~28% of net income (stockanalysis.com)), fully covered by cash flow, making it sustainable. Importantly, WSP has not aggressively bought back stock; in fact, share count grew ~2-3% over the past two years (funded by its capital raise) (stockanalysis.com). We view management's capital allocation as balanced: it prioritizes reinvestment (acquisitions and integration spend) over cash return. Management has stated intent to maintain its dividend and leverage range, implying no imminent large buybacks. The large 2024 equity raise (C\$1.15B at C\$204.50 (financialreports.eu)) was used primarily for the Power acquisition, not shareholder payout. In our view, while cash flow generation is solid, the current capital return (low dividend + negative buyback yield (stockanalysis.com)) suggests minority shareholders should not count on significant capital distributions.

Valuation & Price Target

We triangulate a 12-month target via three approaches:

- **DCF Analysis (WACC ~9%):** We forecast revenues of ~C\$13.0B in 2025 (organic ~7%, plus full-year contribution of recent acquisitions), rising to C\$14.0B by 2027. We conservatively assume Adj. EBITDA margins of ~18% initially (consistent with 2024) and modest expansion to 19% by 2027. After taxes (25%) and reinvestments (capex ~1% of sales, G&A), we estimate 2025-28 FCFs in the C\$950-1,150M range. Terminal growth of 3% yields a terminal EV of ~C\$20B at 2028 projections. Discounted back at 9% gives an equity value roughly C\$10-12 billion, or ~C\$130-150 *per share*. Key inputs: WACC 9% (risk-free ~4%, β ~1.1, ERP 5.5%), tax rate ~25%, terminal growth 3%. The implied equity value aligns with ~\$150/sh. We note this DCF is sensitive to growth: raising sustainable organic growth to 10% or cutting WACC to 8% increases fair value to ~C\$170, but even aggressive assumptions do not justify >~\$200/share absent an unexpected surge in margins.
- **Comparable Multiples:** We compare WSP to large A/E peers. On **EV/EBITDA**, WSP's 2024 Adj. EBITDA was ~\$2.31B (financialreports.eu). Jacobs (J) trades at ~11x EV/EBITDA, Stantec at ~14x, AECOM ~15x. At a mid-range 13x multiple, WSP's implied EV is ~\$30B, implying equity ~\$21B (net debt ~\$9B), or ~C\$125/sh (CAD). On **P/E**, WSP's pro-forma 2025 EPS (GAAP) is approx C\$6.50. Applying 20-25x yields C\$130-163/share. (For context, Jacobs forward P/E is ~24x, Stantec ~23x.) WSP's current multiples (~28x FY25E PE) are near the high end of the peer range, even before factoring its stronger growth outlook. After weighting these, we infer a fair P/E-based value of ~\$140.
- **Blended Price Target:** Combining DCF and multiple approaches (giving roughly equal weight), we arrive at **C\$150** (CAD) as our 12-month target. This blend incorporates a slight premium over pure DCF (\$130-140) reflecting WSP's track record of beating consensus and continued market strength. We note this target already assumes robust execution of current backlog. At \$150, the stock would trade at ~23x 2025 EPS and ~10x 2025 EBITDA – still above long-term historical averages, but nearer to normalized multiples for secular growth.

Sensitivity: If WSP successfully accelerates margin or wins bolt-on deals, fair value could be higher (e.g. earnings surprise driving target toward CAD180+). Conversely, any cut in guidance or spike in integration costs could press value below CAD130.

Risk, Catalysts, and Scenario Analysis

Bear Case (Risks): Our downside scenario envisions WSP failing to meet lofty expectations. Key risks include: a general downturn in infrastructure spending (due to fiscal tightening or an economic recession), which could deflate backlog realization and organic growth (<3%). Rising interest rates may project-finance constraint, delaying large projects (roads, transit, etc.). On the cost side, continued inflation could erode margins if WSP cannot fully pass on higher labor/office costs; we see this in elevated SG&A and wages. Integration risk is real: acquisitions of diverse firms (e.g. POWER, AKF) could prove less synergistic, leading to write-downs. Additionally, a misstep in balance sheet management (e.g. failing to roll over debt cheaply or a credit rating downgrade) would sharply raise financing costs. Valuation-wise, the stock's already-high

multiples provide little cushion: a contraction back to ~18-20× P/E (still above peers) implies a share price of only ~C\$100-125. We define the **bear scenario target** at CAD 125, which assumes 2025 EPS of ~\$5.5 (lower organic growth), and a 20× multiple (down from today's ~28×), giving ~30% downside from current. This would correspond to a total return of about -25% (including dividend).

Bull Case (Catalysts): In a positive scenario, WSP continues to execute flawlessly and macro conditions help. For example, federal infrastructure programs could be expanded in North America and Europe, and heightened ESG/regulatory requirements may spur new consulting mandates. If WSP converts more EBITDA to cash than expected (e.g. through faster DSO reduction and efficiency initiatives), FCF could exceed forecasts. Catalytic events include landing large "mega-projects" or strategic joint ventures (e.g. new transit networks, multi-government smart city initiatives). On capital allocation, management could also pivot to a more shareholder-friendly stance if cash surges: e.g. share buybacks could resume given the current depressed share price. In the **bull case** we assume organic growth accelerates to ~10% (driven by several large wins), adjusted EBITDA margin creeps to 19-20%, and a PE re-rating to 30× on improved confidence. That would support a 12-month price >C\$225. Hence we set a bull scenario target of **C\$225 (+21% total return)**.

Base Case: Our base scenario (which underpins the \$150 target) assumes ~6-8% organic net revenue growth and mid-single-digit EBITDA margin expansion (consistent with guidance). Achieved backlog and modest M&A continue, but financial results progress roughly in line with 2024. We assume WSP trades at ~25× forward P/E (its five-year median is ~24×) by mid-2025. This yields a price around **C\$170**. Accounting for a modest multiple contraction from today's ~30× (given stable growth), our blended price target of \$150 already reflects a slight multiple contraction. If results track our base forecast, we expect the stock to trade sideways to slightly down over the next 12 months as execution is reflected in a gradually lower multiple.

Red Team Analysis (Devil's Advocate)

Even as we rate WSP as a *Buy*, we must confront the "value trap" counterargument. Indeed, we challenge our base-case thesis:

- **Pricing Volatility vs. Long Lead Times:** We may be overly sanguine about WSP's pipeline. Despite a fat backlog, the timing of revenue conversion is uncertain – large engineering contracts often span years, and any delay (e.g. permitting holdups, labor shortages) won't be reflected until future quarters. The market, however, is paying up for *ex-spectations* of that backlog. If even a fraction of projects slip, near-term EPS could disappoint, triggering a sharp multiple contraction.
- **Overvalued Even with Growth:** WSP's current valuation is stretched by almost any measure. We assume ~6-8% organic growth, but to support today's price, investors have implicitly baked in even higher performance. For example, our bull-case 10% growth target only yields a mid-\$200 share price. On a TTM basis, WSP already trades above pre-COVID peaks despite WO THE US AND CANADA infrastructure cycles beginning to mature. In our view, WSP's multiples appear to discount a near-perfect scenario. Should macro pressures slow projects, the high multiple leaves no buffer: returns could be deeply negative.
- **Acquisition Risk and Cash Burn:** The relentless acquisition spree, while boosting immediate revenue, erects a large debt wall. If integration costs or amortization drag become larger than estimated, EPS could fall materially. Notably, WSP's GAAP earnings hide ~C\$195M of amortization in 2024 (financialreports.eu). A single large goodwill impairment (or chronic write-offs) could wipe out a quarter's earnings. Moreover, the planned net leverage (~1.5-2×) assumes reshuffling cash flows. We see a scenario where WSP's cash flows underperform due to higher capex on specialized equipment (e.g. survey equipment) or slower collections, making the leverage targets unreachable and forcing further equity issuances or holding growth flat.

- **Peer Risk and Cyclical Exit Valuation:** Last, the marketplace could conclude WSP is a cyclical engineering stock, not a perpetual growth story. If so, in a downturn it should re-rate toward the mid-teens P/E and low-teens EV/EBITDA of its peers like Jacobs. In that case, even if growth materializes, the *currency* of growth—its P/E—could collapse 20–30%. A cursory example: if WSP's P/E reverts from ~28x to 18x by late-2025 due to broader market repricing, our base EPS forecast (C\$6.50, 2025) would imply only C\$117.

In summary, while WSP is executing well, the stock's premium valuation means any hiccup could turn it from a growth story into a *value trap*. Optical yield (via backlog growth) and record earnings may mask structural weaknesses: inflated multiples, leverage risk, and the inherent volatility of long-cycle projects. Investors should consider these upside-limited factors before trusting the current rally.



END OF RESEARCH NOTE