



SNC-Lavalin Defying Gravity

Description

Is anyone else amazed that **SNC-Lavalin's** (TSX:SNC) stock has held up as well as it has?

It's been more than a year since the company became mired in a bribery scandal that began in Libya and has expanded since, and here the stock sits in the low-\$40's. Sure, it's fallen a little more than 20% from the low-\$50's range that it traded in prior to all of the trouble coming to light, but in my mind, the sell-off has been nothing compared to the troubles SNC has stacked against it.

Earnings aren't the issue

SNC reported earnings yesterday that were 19% below year ago levels, essentially matching the decline that the stock has endured. \$49 million worth of cost provisions on two projects were at the root of these weak profits.

\$32 million was attributed to the McGill University Health Centre fiasco that cost the company's CEO his job. The remainder was derived from a cancelled mining contract after **First Quantum** ([TSX:FM](#)) took over Inmet's Cobre Panama project.

Past financials however are the least of this company's worries. SNC faces one of the most daunting obstacles a business can possibly face – a loss of reputation. “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently”. This is a famous Warren Buffet quote and clearly something that SNC officials lost sight of as they were bribing officials at home and abroad.

Future

SNC faces a long climb back to where it was. On April 17th the World Bank announced that it suspended the company from bidding on bank sponsored contracts for 10 years. Hydro Quebec has made a similar move. And, currently the Quebec Securities Commission is reviewing whether SNC still deserves the privilege of bidding on public work contracts in the province. It's a big world with plenty of work, but SNC losing out on opportunities on its home turf constitutes more than just a slap in the face.

Foolish Bottom Line

SNC's concession assets, namely its 16.8% share of the 407 toll road and 100% ownership of Altalink, are valued by sell-side analysts in the mid-\$20 range. This probably sets a floor for the stock. Given the loss of reputation however that this company has endured and the fickle nature of the business it's in, to say the rest of the company is worth \$15-20/share seems bold. After all, what's a business with a shot reputation really worth?

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1. Investing

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