



3 Reasons to Be Bullish on SNC-Lavalin

Description

By Chris Lau

Alleged bribery and corruption has cast a cloud over the prospects of the engineering firm **SNC-Lavalin** (TSX:SNC). But despite the uncertainty surrounding these allegations, SNC continues to [win contracts](#), revenue is growing and the company still pays a reasonable quarterly dividend.

And there's more. Today let's go into some detail about three reasons to be bullish on SNC-Lavalin, despite the headlines.

1. Weak quarterly earnings ? a trend

Second quarter results appeared to be weak due to a number of one-off issues. Sales grew to \$1.94 billion in the second quarter (up 2% year over year), but SNC posted a \$0.25-per-share loss, hurt by a 17% decline in gross margin.

The transient items that led to this result included the company's Oil/Gas and Infrastructure/Environment segments which chalked up an operating loss of \$104.7 million. In addition, a \$70 million loss was taken due to late penalties for a project in Algeria.

With these issues supposedly in the rear view mirror, SNC is expected to get back into positive territory with its earnings in the 3rd and 4th quarters. The table below helps to illustrate the blip that was Q2.

	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13(E)	Q4'13(E)
EPS	\$0.21	\$0.76	\$0.63	\$0.35	-\$0.25	\$0.66	\$0.70

2. The balance sheet is healthy

Cash and equivalents stood at \$1.4 billion at the end of the June quarter and the company's backlog of \$9.7 billion help to ensure the debt that SNC currently carries is manageable.

As demonstrated in the table below, the company has historically maintained a reasonably levered balance sheet but the Total Debt to Equity ratio is currently in line with historical levels.

	2008	2009	2010	2011	2012	Q2'13	Ave
Total Debt/Equity	182.7%	171.5%	99.8%	118.6%	138.4%	155.7%	144

Source: Capital IQ

3. Notwithstanding the bribery and corruption concerns, the outlook is also healthy

SNC-Lavalin wants to put the bribery allegations behind it although admittedly it's having a tough time of it. As recently as this past June, Algerian police raided the company's office to investigate allegations on this matter.

While accusations will be a distraction for management, the company continues to focus on doing what it does best: looking for growth opportunities and managing projects around the world. The company forecasts net income to grow 10%-15% this year, to between \$220 million-\$235 million. That's despite predicted losses from each of the Oil and Gas and Infrastructure and Environment segments. To help insure growth continues in the years ahead the company also plans to make acquisitions in the clean power and infrastructure sectors.

Foolish Bottom Line

A quarterly earnings loss for SNC-Lavalin has pushed the company's share price lower, but it still has a strong balance sheet and good prospects ahead. As SNC-Lavalin looks for ways to enhance the operational effectiveness of its engineering and construction projects, earnings will improve. It will take some time for the reputation hit this company has taken to wear off, but there is an underlying business here that is intact, and robust.

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