



3 Reasons to Buy SNC Lavalin

Description

SNC Lavalin (TSX: SNC) is a stock sure to turn off a lot of people, and for good reason. Back in 2012, it was discovered that the company used bribery to win contracts with the Libyan government, the first in a string of corruption scandals that year. The revelations caused the shares to fall more than 20% in one day and also forced CEO Pierre Duhaime to step down.

Since then, the company has moved on, and its share price has recovered. Now there are plenty of arguments why SNC would make a great addition to your portfolio, and three are listed below.

1. Stability

As one of Canada's leading engineering and construction firms, SNC Lavalin has a significant presence in various business lines. Last year, no industry segment accounted for more than 24% of the company's total revenue. It also earned a third of its revenue from outside of Canada.

Even better, the most cyclical industries have a relatively small share of the company's revenue pie. Mining and metallurgy accounted for only 18% of revenue and oil and gas accounted for only 7%.

As an added bonus, SNC Lavalin ended the year with a backlog of \$8.3 billion. Although this was down slightly from 2012, it still represented over a year's worth of revenue.

2. The ability to move on

After Mr. Duhaime stepped down, the company brought in an outsider to replace him, Robert Card. Under Mr. Card, SNC Lavalin has made every effort possible to put its past behind it. Chief among these efforts was the launch of a "comprehensive ethics and compliance framework" that applies to the entire company.

While it's too soon to tell what the long-term effects of this framework will be, early indications are promising — in February, it regained permission to contract with public authorities in Quebec. Ideally, this will help bring the company's backlog back up.

3. Price

Despite the recovery in SNC Lavalin's share price, it is still incredibly cheap, with the core business trading at 4.5 times estimated EBITDA, as noted by RBC analyst Sara O'Brien and reported by *The Globe and Mail*. It seems that investors still haven't forgotten what happened to the company in 2012, and are punishing its stock price because of it.

It was only about a month ago that SNC Lavalin sold its AltaLink utility business to **Berkshire Hathaway** (NYSE: BRK.A)(NYSE: BRK.B) for \$3.2 billion, a lot more than what most people were expecting. But the stock barely reacted, with many observers fearing that it would waste the money it received. When investor sentiment is that negative, it's often a pretty strong buy signal.

CATEGORY

1. Investing

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