



Earnings Preview: Can SNC-Lavalin Group Inc Finally Be Trusted?

Description

After a series of bribery and corruption scandals, **SNC-Lavalin Group Inc** (TSX: SNC) appears to be back on track. This week, investors are going to find out what's next for the company.

Founded in 1911, SNC-Lavalin has grown to become one of the world's largest engineering, construction, operations and asset investment companies. For decades, SNC-Lavalin was revered as one of Canada's great corporate success stories.

But in 2012, the company was hit by a string of bribery scandals that led to the arrest of senior executives and sent the company's stock into a tailspin.

New management

Robert G. Card became the company's new president and CEO in October 2012 and has worked hard to rebuild the company's reputation.

Card made several management changes and hired a chief compliance officer to ensure the company does clean business.

New strategy

Card has also been restructuring the company to focus more on its original roots as a world-class engineering and construction firm.

In May, SNC-Lavalin Inc. announced it was selling AltaLink, Alberta's largest regulated electricity transmission firm, to the energy unit of Warren Buffett's **Berkshire Hathaway Inc.** (NYSE: BRK.A) for \$3.2 billion.

In June, the company announced a deal to buy London-based Kentz Corp. Ltd. for \$2.1 billion. Kentz provides engineering, construction and technical services to oil and gas companies.

On a June 23 conference call, Card told analysts "We have made SNC-Lavalin a more efficient,

integrated and client-focused company, while enhancing our ability to deliver the highest ethics and compliance performance.”

Card is also expected to sell the company’s 17% stake in 407 International, a Canadian toll-road company. The transaction could free up another \$3 billion.

Investors like what they see so far. SNC-Lavalin’s stock is up nearly 50% since Card became the new leader.

What to expect for Q2

SNC-Lavalin is working hard at eliminating parts of the business that are not profitable.

The company will likely show that it is making good progress at reducing its challenging legacy projects. In Q1 these represented nearly \$730 million of the company’s \$8.4 billion in revenue backlog.

Investors could see the bottom end of the 2014 EPS guidance adjusted higher. The company hiked the range to \$2.80 to \$3.05 from \$2.25 to \$2.50 after the announcement of the AltaLink transaction.

Analysts are expecting earnings of \$0.63 per share.

SNC handily beat expectations in the first quarter, reporting earnings of \$0.62 per share. Analysts only expected \$0.46.

There has been some talk of a possible special dividend but I don’t think that will be announced this week. A deal to sell the 407 would more likely be the catalyst for a one-time payout.

The regular dividend might get bumped up. Currently the company pays \$0.96 per share, yielding about 1.7%. The company has increased the dividend every year since 2006.

CATEGORY

1. Investing

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1. NYSE:BRKA (Berkshire Hathaway Inc.)
2. TSX:ATRL (SNC-Lavalin Group)

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