



What Investors Must Know About SNC-Lavalin Group Inc.'s 2014 Outlook

Description

SNC-Lavalin Group Inc. (TSX: SNC) reported third-quarter results that were not only below expectations, but also came with a significant restructuring announcement and a lowering of its full-year earnings outlook.

Earnings per share (EPS) came in at \$0.45 compared to an estimated \$0.80. But that's before adjusting its restructuring costs and the cost of acquiring Kentz Corporation Limited for about \$2 billion this summer (which SNC did in order to gain access to energy hotspots in the Middle East and Africa). If you look at the EPS after this adjustment, the consolidated adjusted EPS comes to \$0.77, which is not that bad in comparison. It is still slightly below estimated but that is because of the falling oil and gold prices.

The company also said it will be laying off 4,000 employees, out of which 1,000 jobs will be cut in Canada. The restructuring costs will be a total of \$200 million over the next 18 months and SNC admitted this cost will affect its Canadian operations. What's worse is that the earnings guidance for 2014 was lowered due to a softening in commodity prices as well as certain non-performing legacy contracts. SNC now sees a profit range of \$2.15 – \$2.40 per share for the full year.

Bull vs. bear

It's been a tough few years for SNC. The company seems to be getting beaten down with more bad news. First there was that messy bribery scandal, then earlier in October, CEO Robert Card said if SNC was levied with criminal charges, the company might [break up, shut down or even sell itself off](#). And now, a weak quarter, a lowered outlook and a restructuring initiative.

In spite of all this, some analysts are still bullish on the company. One analyst at **Dundee Capital Markets Inc.** (TSX: DCM) says this restructuring initiative is "painful but necessary." After doing the math, he says if you add the company's hard assets and cash, the company's stock is valued at \$32. Add the \$10 a share for the Kentz acquisition to that and the floor for the stock comes to \$42 (that's the current level the stock is hovering around).

On the bullish side, the company is essentially a quality business and does have a strong exposure to

oil and gas and a solid power presence. All these issues currently faced by the company are only smaller pieces that have to be corrected in the near-term due to its past ghosts.

But on the bearish side, its strong exposure to oil and gas works against it. That said, the global mining industry is generally weak too. So when revenue is low, executives have to make tough decisions like reducing its headcount.

What should investors do?

If you ask me, investors should focus on the long-term. We don't know how the stock is going to perform tomorrow or the day after that. But what we know is that SNC-Lavalin is a solid company with a great leader at its forefront (if you are skeptical, take a look at the stock performance since CEO Robert Card's appointment). And that's what I'd invest in.

In my last [article](#), I said the company is great value if purchased under \$50 a share. Right now it's way below that level, so I think it's a great bargain to buy and hold on to.

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1. TSX:ATRL (SNC-Lavalin Group)

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