



Is SNC-Lavalin Group Inc. a Safe Investment?

Description

Fool me once, shame on you. Fool me twice... well, you know how it goes.

SNC-Lavalin Group Inc. (TSX: SNC) hit investors on the head with a shovel again on November 6 when it announced plans to slash 4,000 jobs, or about 9% of its staff. The company also reduced its 2014 earnings guidance to \$2.15-\$2.40 per share from the previous forecast of \$2.80-\$3.05 per share.

Robert Card, SNC-Lavalin's new post-scandal CEO, had been riding a wave of goodwill with the market. The stock rose from \$38 per share when Card took over in October 2012 to almost \$60 per share in early August this year. The shares have since dropped nearly 25% and Card is dealing with a credibility issue due to the size of the guidance reduction.

The company said it will take charges of about \$300 million spread out over the next two years. Beginning in 2015, the restructuring should result in annual operating efficiencies of about \$100 million.

Most of the problems are linked to the slump in the mining sector and a general economic slowdown in the BRIC countries. As such, about 75% of the job cuts will be outside of Canada.

The company is in the midst of a five-year plan launched by Card to turn SNC-Lavalin into a Tier-1 global construction and engineering company and wipe the slate clean on the scandals that have plagued SNC during the past few years.

In May, SNC-Lavalin Inc. announced the \$3.2 billion sale of Alberta's largest regulated electricity transmission company, AltaLink, to the energy unit of Warren Buffett's **Berkshire Hathaway Inc.** (NYSE: BRK-A)(NYSE: BRK-B). Card's team raised the 2014 earnings guidance at this point from \$2.25-\$2.50 per share to the now-abandoned \$2.80-\$3.05 per share target.

In June 2014, SNC made a big splash by spending \$2.1 billion to buy Kentz Corp., a U.K.-based oil and gas services company. The market initially welcomed the move and the acquisition will probably turn out to be a good one, even though oil producers are taking it on the chin right now as crude prices float around \$80 per barrel.

Kentz just announced a new deal in Iraq that could be worth \$110 million over three years. The news should help put a floor under SNC's stock in the short term, but some lingering legacy contracts, about \$500 million worth, are still problematic.

Despite the troubles, the experts are still bullish on the stock. BMO Capital Markets has a \$54 target on SNC-Lavalin, TD Securities has a \$59 target on the stock, and the analysts at **Bank of Nova Scotia** think the shares will hit \$71. Maybe they are hoping for a big windfall from a possible sale of SNC's interest in the 407 toll highway.

SNC-Lavalin pays a dividend of \$0.96 per share that yields about 2%. The company trades at about 23 times earnings.

What should investors do?

The stock will probably do well once SNC-Lavalin finally sorts things out and the mining sector rebounds, but that could take some time. At the current price of \$44 per share, the downside risk for investors should be limited, but the company has a habit of disappointing the market with big announcements, and more volatility should be expected. The stock isn't cheap even after its recent tumble, and global growth is moving in the wrong direction for companies like SNC-Lavalin that rely on big infrastructure contracts. I would probably search for better opportunities right now.

If you are looking for a stock that pays growing dividends and has low volatility, an interesting one is profiled in the following report.

CATEGORY

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