Should You Buy SNC-Lavalin Group Inc. in 2015?

Description

SNC-Lavalin Group Inc. (TSX: SNC) has been a roller-coaster ride for investors since 2009 and the only ones who have made any money on the stock have been traders.

Let's take a look at the current situation to see if you should buy, hold, or sell the stock and look elsewhere for 2015.

Credibility?

When Robert Card took over the CEO position in October of 2012, SNC-Lavalin was working its way through a nasty mess of bribery scandals, and writing off unprofitable contracts. At the time, the stock traded for about $38 per share.

Card was supposed to be the guy who could turn SNC around and put all the bad news behind it. A new five-year plan was drawn up, and the new management team began its efforts to transform SNC into a top-tier global construction and engineering company.

Investors and the media bought into the story for the first 20 months of Card's tenure and the stock rallied to almost $60 in August 2014.

Then, the wheels fell off.

The shares have since dropped almost 30% and recently revisited the $38 mark. So, two years later, shareholders are right where they started when Card took over.

What happened?

On November 6, the company said it would take charges of about $300 million and eliminate 4,000 jobs as it restructures its global operations. The announcement wouldn't have been such a big deal if SNC had given the market a heads up earlier in the year about operational problems, but it didn't.

In January, SNC gave earnings guidance for 2014 of $2.25 to $2.50 per share. In May, the company announced a $3.2 billion deal to sell its AltaLink electricity transmission company to the energy unit of Warren Buffett's **Berkshire Hathaway Inc.**, and then boosted guidance to $2.80 to $3.05 per share.

In June, the market really got excited as Card spent $2.1 billion to buy UK-based Kentz Corp., an oil and gas services company. The deal closed just as oil companies were hitting their 2014 peak. The Kentz acquisition could still turn out to be a good one, as the company recently announced a big contract in Iraq.

Throughout the year, the global mining industry has gone from bad to brutal, and that situation is the big reason for the November restructuring announcement and subsequent reduction in the 2014 earnings guidance to the current target of $2.15 to $2.40 per share.

Should you buy?

SNC says the $300 million hit will be absorbed over two years and the company should see annual operating efficiency gains of about $100 million, once the process is complete.

The company is also making progress in winding down unprofitable legacy projects, but that number still sits at about $500 million.

Given the extended rout in the oil market, the Kentz acquisition looks expensive as global oil companies slash capital budgets heading into 2015. At the same time, the mining sector doesn't look like it is going to improve much in the near term.

At the current price of about $42 per share, SNC-Lavalin still trades at more than 22 times earnings, which isn't cheap. Long-term investors should come out OK, but there are a lot of other opportunities in the market right now that are probably a better place to invest your money.

SNC's volatility has been indicative of the entire Canadian market this year. If you are looking for more stable options to consider for your 2015 holdings, the following free report is worth reading.

CATEGORY

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TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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