

## SNC-Lavalin Group Inc. Charged With Fraud: What Should Investors Do?

### Description

The long-running difficulties at **SNC-Lavalin Group Inc.** (TSX:SNC) continue to haunt the company and its shareholders. Will the pain ever end?

News hit the wires today that the National Division of the Royal Canadian Mounted Police (RCMP) has laid corruption and fraud charges against SNC for its dodgy business dealings in Libya.

The scandal is old news and none of the executives connected with the investigations are still with the company, but the fact that the RCMP is charging the company itself, instead of the individuals, is a new speed bump on the road to recovery for SNC and its CEO, Robert Card.

Card took the reins at SNC-Lavalin in October of 2012. His arrival was met with much fanfare as the market bought into the idea that he would be able to wave a magic wand and make all the headaches go away.

The company immediately launched a new five-year plan to transform the embattled Canadian icon into a top-tier global construction and engineering company, and Card completed two big deals in 2014 that, at the time, looked like strong strategic moves.

In May, SNC sold its AltaLink electricity transmission company for \$3.2 billion to the energy division of Warren Buffett's **Berkshire Hathaway**. One month later, Card took \$2.1 billion of the funds and bought U.K.-based Kentz Corp., an oil and gas services company.

For the first 20 months or so of Card's term as CEO, investors piled into the stock, driving it from \$38 when he took over to nearly \$60 per share in August 2014. Since then, the stock has been under pressure.

When SNC released its Q3 2014 earnings, it shocked the market with the announcement of a \$300 million restructuring charge. The company slashed 4,000 jobs and reduced 2014 earnings guidance to between \$2.15 and \$2.40 per share.

The news wouldn't have been a problem if the company had given the market some notice, but the cut in earnings guidance came as a big shock.

In January last year, SNC told investors that 2014 earnings would be between \$2.25 and \$2.50 per share. In May, guidance was raised to between \$2.80 and \$3.05 per share.

Suddenly, Robert Card had a credibility problem and investors headed for the exits.

To his credit, Card has done a good job of winding down the unprofitable legacy projects that have been a drag on the company's earnings. At the end of Q3 2014, the value still stood at \$500 million, but the number is going in the right direction.

## Should you buy?

The plunge in oil prices and continued difficulties in the mining sector are hindering SNC-Lavalin, and those issues are likely to continue for some time. The latest RCMP charges will be a distraction for management, and could deter customers.

SNC-Lavalin has the potential to be a fantastic company, but I think new investors should sit on the sidelines right now.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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