

## 4 Things Investors Must Understand About the Charges Against SNC-Lavalin Group Inc.

### Description

There seems to be more bad news for **SNC-Lavalin Group Inc.** (TSX:SNC) as the Royal Canadian Mounted Police (RCMP) formally laid corruption and fraud charges against the company last week. These charges are in relation to SNC's dealings in Libya between 2001 and 2011. As this news makes headlines, there are a few things investors must understand before making any decisions about the stock.

First, although these allegations are serious and could potentially have significant implications for SNC, investors must understand that these charges are not new. Investors and the rest of the world have been aware of these charges since 2012 and since then, SNC has removed everyone who was involved in the scandal, replaced them with credible executives, and has proceeded to do everything it can to turn itself around. The only new piece of information is the extent of the amount involved in the scandal. Previously, SNC had said the amount added up to roughly \$56 million, but the RCMP says the actual number is closer to \$176 million.

Second, an analyst at Dundee Capital Markets says that SNC could potentially look at a settlement of \$300 million (that's the worst case scenario). Although that is not an insignificant amount, it is very small for a company that generates about \$8 billion in revenue. Most of the damage for SNC will more likely be due to a slam of the company's reputation, as opposed to the settlement charges.

Third, there are huge concerns about SNC's ability to bid for future government projects. This is mainly due to the CEO's [comments last year](#). Robert Card had told *The Globe and Mail* that SNC would not be able to handle another blow, especially if formally charged. He said the company would need to be broken up, sold, or shut down if a formal charge was levied against it, since a conviction would ban the company from doing business with the government. A huge part of SNC's business is related to government projects, so it's understandable that investors are concerned.

But what investors must know is that the current charges do not affect the company's ability to bid on any public or private projects. In fact, if you look at companies that were in similar situations in the past, not a single one of them have been banned or cut off so massively. So, the chances of that happening to SNC are limited. Moreover, last week Quebec's economy minister was quick to come to SNC's defense. He said SNC needs to be preserved at "all costs" and even described the Montreal-based company as a "jewel." So, I don't think SNC will have too much trouble bidding on government projects.

Finally, investors should expect this scandal to drag on. If you look back, **KBR Inc.** had a similar scandal and it took them about a decade to settle the case. Similarly, investors should expect a similar timeline for SNC. However, they must try to remember that these scandals are from SNC's past. The current management is strong and ethical and has vowed to "vigorously defend itself and plead not guilty."

## Bottom line

Investors should try to focus on the long term. For SNC, these problems will probably continue to haunt them for a while, but I don't think SNC's business prospects will be impacted too much because of this as the market already knows about these problems. There are other catalysts that are more likely to impact the company's performance (like oil prices, for example).

If you are a new investor, I'd suggest sitting on the sidelines, since turnaround companies usually come with a bit of baggage and risk. However, if you are a seasoned investor, then buying turnaround companies can often lead to huge rewards in the long run.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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