



Should Investors Ignore the Criminal Charges Against SNC-Lavalin Group Inc.?

Description

It's a full-fledged scandal that management at **SNC-Lavalin Group Inc** (TSX:SNC) would rather not discuss. Should criminal corruption charges laid by the RCMP last month keep investors away from the engineering giant, which released its latest quarterly earnings on Thursday?

The Montreal-based firm posted earnings of \$1.15 billion in the fourth quarter, up from \$92.6 million in the same period a year ago. However, those numbers were skewed by the \$3.2 billion sale of Alberta's AltaLink to **Berkshire Hathaway** last year.

Stripping out the AltaLink acquisition, SNC's adjusted net income was flat in the quarter, even as quarterly revenues rose to \$2.82 billion from \$2.12 billion in Q4 2013.

"This was a year of significant change at SNC-Lavalin as we took action to focus the company and expand our engineering and construction (E&C) platform through deeper oil and gas capabilities, which, along with our power segment, are expected to continue to drive E&C net income improvements in 2015," said Robert Card, the company's president and CEO.

SNC acquired oil and gas services company Kentz Corporation Ltd. last June, boosting the company's order book by nearly \$5 billion. SNC said the addition of Kentz will make the firm a leading global E&C player in the oil & gas sector, with a greater presence in key growth regions, including the Middle East, North America, and Asia Pacific, and a significant presence in Australia.

But back to those pesky criminal charges. On February 19, the RCMP charged the company with fraud and corruption in connection with its operations in Libya. The company has denied the charges and has vowed to "vigorously defend itself."

Analysts say the charges have hit SNC's stock hard and share prices have dropped 13% in the last month. The stock is "stunningly cheap," said Bruce Campbell, president and portfolio manager at Campbell, Lee & Ross Investment Management in a recent interview with the *Financial Post*. "If I didn't own it already...I would probably nibble at this level just because the value is so compelling."

Maxim Sytchev, managing director and head of research at Dundee Capital Markets, agrees the

current share price undervalues the company. “We feel that there is a lot of value and at some point it has to be unlocked, whether it’s through better performance or somebody looking from outside the fence,” he told the *Post*, suggesting that SNC could be a takeover target.

If you believe the company can ride out the criminal charges and come out unscathed on the other side, the stock may be worth picking up due to its current bargain price. On the other hand, a guilty verdict could drag the stock down even further. It’s a tough call, but as the saying goes, “fortune favours the brave.” Are you brave enough to buy SNC-Lavalin?

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1. TSX:ATRL (SNC-Lavalin Group)

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