



## Has SNC-Lavalin Group Inc. Finally Bottomed?

### Description

Clouds of uncertainty still hang over the corporate offices of **SNC-Lavalin Group Inc.** (TSX:SNC) but value investors are looking at the stock and wondering if this could be one of the best deals they've seen in a very long time.

Let's take a look at the current situation to determine if SNC deserves to be in your portfolio.

### Troubled history

When Arthur Surveyer founded SNC back in 1911, he certainly couldn't have imagined his company would ever be charged with corruption and fraud for doing dodgy deals in Libya.

Unfortunately, that's the situation current CEO Robert Card is dealing with, and the ongoing saga of the Libya scandal continues to hinder his efforts to rebuild the company.

The National Division of the Royal Canadian Mounted Police (RCMP) recently laid corruption charges against SNC. The news came as a shock to investors because the market thought the issue had pretty much been cleaned up. All former executives tied to the bad Libyan deals have left SNC and investors thought the legal fallout would be limited to the individuals.

This latest twist in the story has put investors back on their heels because a conviction could lead to SNC being barred from bidding on some government contracts.

At the very least, the charges are a major distraction for Card and his team.

### Turnaround efforts

When Card became SNC's CEO in October 2012 he immediately launched a five-year plan to transform the company into a top-tier global construction and engineering company.

To date, SNC has completed two major deals. In May 2014 the company sold its AltaLink electricity transmission division for \$3.2 billion. One month later SNC paid \$2.1 billion to buy U.K.-based Kentz

Corp., an oil and gas services company.

The Kentz deal was done just before oil prices began their current slide into oblivion. SNC's stock initially held up well, but has fallen from nearly \$60 per share last August to its current price of about \$40. Despite the unfortunate timing of the Kentz purchase, the acquisition should position SNC well for a recovery in energy markets.

Card has done a good job of winding down unprofitable legacy projects and implementing company-wide cost controls. The firm announced the elimination of 4,000 positions and took a \$300 million restructuring hit when it released Q3 2014 earnings.

The recent Q4 earnings report actually came with a couple of positive surprises. SNC increased its dividend by 4% and the year-end revenue backlog jumped to \$12.3 billion.

In the past month, SNC has announced several new deals. This is important because it demonstrates the company is still able to win key contracts around the globe.

### **Should you buy?**

SNC-Lavalin could be one of the best buys in the market right now.

The company's market capitalization is about \$6.3 billion. SNC has indicated it plans to divest its stake in the 407 toll road, which analysts believe could bring in as much as \$3 billion. SNC finished 2014 with total cash and short-term investments of about \$2.5 billion and long-term debt and liabilities of \$1.5 billion.

Considering the size of the revenue backlog, the stock looks very cheap, but investors have to believe the company will not be materially affected by the RCMP charges. At this point, that's a tough call to make.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

### **Category**

1. Investing

### **Tags**

1. Editor's Choice

### **Date**

2025/07/25

**Date Created**

2015/04/08

**Author**

aswalker

default watermark

default watermark