



Contrarian Investors: Should You Buy SNC-Lavalin Group Inc. or Bombardier Inc.?

Description

SNC-Lavalin Group Inc. (TSX:SNC) and **Bombardier Inc.** ([TSX:BBD.B](#)) are working hard to emerge from difficult times, and some contrarian investors are starting to take interest.

Let's examine the situation at both companies to see if one deserves a spot in your portfolio.

SNC-Lavalin

The National Division of the Royal Canadian Mounted Police (RCMP) recently laid fraud and corruption charges against SNC-Lavalin. This event is just the latest chapter in an ongoing drama connected to business deals the company entered into with Libya.

Now, questions linger as to whether or not SNC will be banned from bidding on government work if it is convicted.

The news came as a surprise to the market because most investors thought SNC had finally put the scandal behind it after the company fired all the executives connected to the Libyan deals and hired Robert Card to run the business.

The new boss has been working hard to turn SNC around amid the ongoing corruption distractions. Card sold off the company's AltaLink electricity transmission business for \$3.2 billion and then spent \$2.1 billion to buy Kentz Corp., a gas and oil service provider.

Investors initially rewarded Card for his efforts. When he took over the company in October 2012, the stock was about \$38 per share. By August 2014 it was just shy of \$60.

The Kentz deal looked like a good one when it was announced last June because oil prices were still above \$100 per barrel. In hindsight, the timing has proven to be a bit unfortunate. A major restructuring was announced last fall to deal with the changing market conditions and the shares have fallen back to \$41.

At the current price, SNC has a market cap of about \$6.3 billion. The company's stake in the 407 toll road is estimated to be worth about \$3 billion. SNC finished 2014 with cash and short-term investments of about \$2.5 billion and just \$1.5 billion of long-term debt and liabilities.

The company has a revenue backlog of \$12.3 billion and just increased its dividend by 4%.

Bombardier Inc.

The situation at Bombardier is also garnering a lot of attention. The company has been struggling with its new CSeries jet program and the last few months have seen some difficult, but much-needed, changes.

Facing a cash crunch, Bombardier cut its dividend and raised more than \$3 billion in capital. The company also brought in a new CEO, Alain Bellemare.

Investors were initially concerned that Bellemare would not be given the freedom to really shake things up because the old CEO, Pierre Beaudoin, was promoted to the position of executive chairman.

Recent announcements suggest that's not the case. Bellemare has replaced two top-level executives and is reported to be looking at options to spin off or sell the company's transport business.

Which should you buy?

SNC looks like a steal right now on a valuation basis. The big unknown is the end result of the RCMP charges.

Bombardier finally appears to be getting its act together, but the company is sitting on a mountain of long-term debt and there are serious concerns about whether the CSeries program will ever truly succeed. At the same time, the historically strong transportation division is now facing aggressive competition from a Chinese competitor in key markets.

Both stocks are risky, but SNC is probably a better pick at this point.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)
2. TSX:BBD.B (Bombardier)

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