



Is it Time to Buy SNC-Lavalin Group Inc.?

Description

SNC-Lavalin Group Inc. (TSX:SNC) is up nearly 20% in less than two months and investors are wondering if the company has finally put the corruption problems behind it.

Let's take a look at the current situation to see if you should add SNC-Lavalin to your portfolio.

Ghosts of Libya

Most of SNC's problems in the past few years have revolved around a corruption scandal connected to the company's contracts in Libya.

Investors thought the issue had been dealt with once the executives responsible for the dodgy deals were fired, but the story took another turn for the worse in February when the RCMP filed corruption charges against SNC itself. Up until that point, charges had only been laid against the individuals.

The news was unexpected and sent the stock plummeting as analysts pondered the ramifications of a guilty verdict. The worst-case scenario was that SNC would be barred from bidding on government contracts for 10 years.

Last week's budget apparently had some good news for SNC buried deep in the back pages. One interpretation says part of the document indicates the government could re-jig the wording on the rules that automatically levy the 10-year penalty on companies convicted of corrupting or bribing public officials.

The bidding rules will be "consistent with best practices in Canada and abroad" and ensure that companies are provided with "due process and a whole-of-government perspective."

The language seems a bit vague to me and I wouldn't back up the truck based on the statements, but analysts and the market are feeling optimistic.

Turnaround efforts

The company sold off its AltaLink electricity transmission business last year for \$3.2 billion and then turned around and purchased oil-services provider Kentz Corp. for \$2.1 billion. The Kentz deal was done when oil prices were still riding high, but the acquisition should be beneficial in the long haul.

SNC continues to restructure as it works through the scandal distractions. Last fall management took write-downs and reduced staff to adjust to difficult conditions in both the energy and mining sectors.

Valuation

The big attraction for investors is the value proposition. SNC has a market cap of \$6.7 billion. Estimates for the company's stake in the Highway 407 toll road run as high as \$3 billion and the company finished 2014 with cash and short-term investments of about \$2.5 billion. Long-term debt and liabilities were just \$1.5 billion. The year-end revenue backlog was \$12.3 billion and the company has already signed a number of new deals in 2015.

Should you buy?

SNC has the potential to be a big winner for investors, but there could be more volatility in the short run until the corruption charges finally gets sorted out. If you have a contrarian spirit, you might want to consider a small position in the stock. The easy money has already been made, but the shares could quickly move back above \$50 on good news.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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