



Will the Post-Earnings Rally in SNC-Lavalin Group Inc. Continue?

Description

SNC-Lavalin Group Inc. (TSX:SNC), one of the largest engineering and construction companies in the world, announced first-quarter earnings before the market opened on May 7, and its stock responded by rising over 5% in the day's trading session. Let's take a thorough look through the quarterly report to determine if this could be the start of a sustained rally higher, or if all the good news is already priced in to the stock.

The results that ignited the 5% rally

Here's a summary of SNC's first-quarter earnings results compared with its results in the same period a year ago.

Metric	Q1 2015	Q1 2014
Diluted Earnings Per Share	\$0.68	\$0.62
Revenue	\$2.26 billion	\$1.72 billion

Source: *SNC-Lavalin Group Inc.*

SNC's diluted earnings per share increased 9.7% and its revenue increased 31.2% compared with the first quarter of fiscal 2014. These very strong results can largely be attributed to the company's "landmark" \$1.97 billion acquisition of Kentz Corp., which was completed in August 2014. The acquisition was a primary driver behind revenues increasing 60.3% to \$977.97 million in its Packages segment and 72.7% to \$869.59 million in its Services segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Net income increased 10.7% to \$104.83 million
2. Revenues decreased 4.7% to \$357.42 million in its Operations & Maintenance segment
3. Revenues decreased 77.5% to \$52.07 million in its Infrastructure Concession Investments segment

4. Direct costs of activities increased 40.8% to \$1.92 billion
5. Gross profit decreased 5.5% to \$337.15 million
6. Earnings before interest and taxes decreased 40.1% to \$101.16 million
7. Revenue backlog increased 38.9% to \$11.63 billion
8. Cash and cash equivalents increased 3.6% to \$1.1 billion

SNC also announced that it will be maintaining its quarterly dividend of \$0.25 per share, and the next payment will come on June 4 to shareholders of record at the close of business on May 21.

Should you buy shares of SNC-Lavalin today?

SNC-Lavalin Group posted very strong first-quarter results, so I think its stock responded correctly by rising over 5%. However, I think there is still plenty of room left to the upside for the stock.

First, SNC's stock trades at just 22.2 times fiscal 2015's estimated earnings per share of \$2.04 and only 16 times fiscal 2016's estimated earnings per share of \$2.84, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 43. I think the company's stock could consistently command a fair multiple of at least 25, which would place its shares around \$51 by the conclusion of fiscal 2015 and around \$71 by the conclusion of fiscal 2016, representing upside of more than 12% and 56%, respectively, from current levels.

Second, SNC pays an annual dividend of \$1 per share, which gives its stock a 2.2% yield at today's levels. A 2.2% yield is not high by any means, but it is very important to note that the company has increased its dividend for 15 consecutive years, making it one of the top dividend-growth plays in the market today.

With all of the information provided above in mind, I think SNC-Lavalin Group represents one of the best long-term investment opportunities in the TSX 60 today. Foolish investors should take a closer look and strongly consider beginning to scale in to positions.

CATEGORY

1. Dividend Stocks
2. Investing
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1. Editor's Choice

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1. TSX:ATRL (SNC-Lavalin Group)

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