



## Is Now the Time to Buy Beaten-Up SNC-Lavalin Group Inc.?

### Description

The last couple of years have been relatively entertaining for holders of **SNC-Lavalin Group Inc.** (TSX:SNC) shares, and not in a good way.

The company got hit with a bribery scandal, with the RCMP filing charges against the company because of its actions in Libya. According to the charges, employees paid more than \$47 million in bribes to get the contracts in the first place, while defrauding the country of nearly \$130 million. This was just the latest in scandals, which also include question marks around projects in Bangladesh, Mexico, and at home in Montreal.

The big issue is with the RCMP charges. If the case gets brought to trial and the company is found guilty, it could potentially be unable to bid on any government construction projects, since the feds bar any company with bribery or corruption convictions from doing government work.

Obviously, this is a big deal. The company has billions in government contracts it is either currently working on, or that are in its backlog. It's little wonder why shares are down so much on the news.

While things aren't looking good, I think SNC might be an attractive opportunity for value investors. Here's why.

### Sum of the parts

If you add up the assets the company owns, I think a fair value is about \$63 per share, much higher than the current \$46 share price.

The company owns approximately 17% of Highway 407, a toll road that bypasses Toronto. Analysts estimate the stake is worth approximately \$20 per share, or \$3 billion. Currently, the company has announced its intention to sell its stake in the highway.

The engineering and construction business is estimated to earn approximately \$2.20 per share in 2015. At a 15 times earnings multiple, we can estimate this part of the company is worth \$33 per share. That's probably a low multiple considering the company's robust backlog, which includes two

new major projects announced earlier this year—the Champlain Bridge in Montreal and a wind terminal for BC Hydro.

Plus, the company has approximately \$10 per share worth of other investments, including the nearly \$2.2 billion worth of cash on its balance sheet, less some debt. Put all that together, and there's a value of approximately \$63 per share.

Other people are seeing the value too. Just last week, rumours were flying that the company was close to being acquired, with the most prominent buyer being none other than the Oracle of Omaha himself, Warren Buffett. Buffett knows the company after dealing with it to buy power assets in Alberta last year. But the new management team doesn't appear to be interested in selling, and even came out with a press release stressing that the company is not for sale.

### **But what about the charges?**

There's no doubt that the company will suffer if the RCMP throws the book at it and a court officially finds it guilty.

But I think the chances of that are slim. The company has made multiple changes since the allegations became public, including sacking the employees responsible, shaking up management, and beefing up its internal compliance department. It has also cooperated with officials and is anxious to make a deal.

If the company was defiantly digging in its heels and insisting on keeping the status quo, I can see the feds going all the way with charges. But SNC's management is taking the right steps to ensure nothing but a big fine, which will also likely come without an admission of guilt. This will leave it free to continue bidding on government projects. Besides, SNC has been one of the government's preferred partners for years now, even winning contracts during the worst of this scandal.

Although there are some pretty major storm clouds currently above the company, SNC-Lavalin could be a major win for patient value investors. Shares look to be about 35% undervalued, and in the meantime, investors are paid more than 2% annually in dividends just to own it. It isn't very often forever stocks like this one come on sale.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

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**Date**

2025/07/25

**Date Created**

2015/06/09

**Author**

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