



## Is Warren Buffett About to Buy SNC-Lavalin Group Inc.?

### Description

On the surface, **SNC-Lavalin Group Inc.** (TSX:SNC) shares look to be ripe for the picking.

Shares are beaten up for one huge reason, and that's the bribery scandal the company has found itself in. According to the RCMP, the company is accused of paying the government of Libya more than \$47 million in bribes to get a contract in the first place, and then defrauded the people of the former dictatorship nearly \$130 million.

This isn't the only issue, either. The company is also being accused of some underhanded tactics when bidding for a bridge project in Bangladesh, a consultant job in Mexico, and on McGill University's hospital project in Montreal.

These allegations have obviously weighed on the stock. Although shares are pretty much flat since the charges were officially announced, they're still down 15% over the past 52 weeks. The big concern is whether or not the charges stick. If they do, then SNC will be barred from bidding on government work for the next 10 years. For a company so dependent on government mega-projects, this is a huge sticking point. Management, to their credit, are working tirelessly to work out some sort of agreement with the feds to settle without admitting guilt.

Many observers say that SNC-Lavalin shares are outrageously cheap at today's levels, and I think they might be on to something. I recently [did an analysis](#) of the stock that suggested fair value was approximately \$63 per share thanks to valuable stakes in Highway 407 in Toronto, as well as projected earnings from its core business. That's a potential upside of nearly 40%, which is pretty attractive in today's arguably overpriced market.

Essentially, SNC-Lavalin is a good company trading at a discount because of a fixable issue. If you follow the history of Warren Buffett, it looks to be right in his wheelhouse. But will Buffett actually buy SNC-Lavalin?

### Why Buffett will buy

Not only do SNC-Lavalin's temporary issues seem like the perfect opportunity for Buffett, he also has a

history with the company.

In 2014 SNC sold its stake in Altalink—an Alberta-based electricity transmission company—to **Berkshire Hathaway Inc.**'s energy division for a cool \$3.2 billion. Part of the deal was an agreement to cooperate in the future on certain power projects in the future.

Although it was one of Buffett's key lieutenants that did most of the heavy lifting in that deal, there's no way Berkshire is going to spend \$3.2 billion on something without Buffett approving it. And since Buffett is known to prefer deals with friendly sellers, it's obvious he'd be willing to go back to SNC's management to work out a deal.

Plus, there's the most compelling reason, and that's SNC's value. SNC is currently exploring options to extract value from the company, like selling its stake in Highway 407. Buffett could easily just swoop in, buy the whole company, and either sell the Highway 407 stake himself or keep it. Estimates are that the stake in the highway alone is worth up to \$3 billion, or about \$20 per share.

This is exactly the type of situation Warren Buffett thrives in.

### **But is the company for sale?**

Unfortunately for shareholders, it doesn't look like the company is for sale. In fact, management has gone on the record to say exactly that a few weeks ago when Buffett rumours were at their peak.

Still, investors shouldn't fret about Buffett being shut out. It's still obvious there's value there, with or without the Oracle of Omaha's involvement. Buying a stock on speculation that it'll be acquired usually doesn't work out. Buying a stock because it's inefficiently priced has a much better success rate.

It looks unlikely that Buffett is about to acquire SNC-Lavalin. But that doesn't mean he wouldn't if it was up for sale. The company has many things in common with some of Buffett's best acquisitions, which is what makes it compelling at these levels.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

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