



## After the Sell-Off of Over 8%, Is SNC-Lavalin Group Inc. a Value Play?

### Description

**SNC-Lavalin Group Inc.** (TSX:SNC), one of the largest engineering and construction companies in the world, announced weaker-than-expected second-quarter earnings results before the market opened on August 6, and its stock responded by falling over 8% in the trading session that followed. Let's take a closer look at the results to determine if this steep decline represents a long-term buying opportunity, or a major warning sign.

#### The results that ignited the sell-off

Here's a summary of SNC's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.34	\$0.48	\$0.34
Revenue	\$2.25 billion	\$2.29 billion	\$1.70 billion

Source: *Financial Times*

SNC's adjusted earnings per share remained unchanged and its revenue increased 32.7% compared with the second quarter of fiscal 2014. Its flat earnings-per-share performance can be attributed to its adjusted net income increasing just 2.2% to \$53.17 million because of a weak performance in its infrastructure and construction sub-segment. The weakness was primarily due to "challenging soil conditions relating to the tunnel portion of a mass transit project and addition costs to secure the completion date on a major highway project, both in Canada."

The company's very strong revenue growth can be largely attributed to its acquisitions of Kentz Corp., which was completed on August 22, 2014, and was a primary driver behind its revenues increasing 590.8% to \$891.01 million in its oil and gas segment.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Revenues increased 28.8% to \$409.32 million in its power segment
2. Revenues decreased 15.7% to \$662.94 million in its infrastructure segment
3. Revenues decreased 2.4% to \$228.61 million in its mining & metallurgy segment
4. Revenues decreased 74.4% to \$58.49 million in its infrastructure concession investments segment
5. Gross profit decreased 13.5% to \$301.55 million
6. Earnings before interest and taxes decreased 61.6% to \$43.62 million
7. Revenue backlog increased 50.8% to \$12.39 billion
8. Repurchased 1.65 million common shares for a total cost of \$74 million
9. Paid out a quarterly dividend of \$0.25 per share for a total cost of \$75.98 million
10. Cash and cash equivalents increased 9.5% to \$934.48 million

SNC also announced that it will be maintaining its quarterly dividend of \$0.25 per share, and the next payment will come on September 3 to shareholders of record at the close of business on August 20.

### **Should you buy SNC-Lavalin's stock on the dip?**

It was a disappointing quarter overall for SNC, so I think the post-earnings drop in its stock was warranted. However, I also think the sell-off was overdone and the stock now represents a great long-term investment opportunity because it trades at very inexpensive valuations and has shown a strong dedication to maximizing shareholder value through the payment of dividends.

First, SNC's stock now trades at just 18.3 times fiscal 2015's estimated earnings per share of \$2.19 and a mere 13.7 times fiscal 2016's estimated earnings per share of \$2.93, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 43.7 and the industry average multiple of 32.5.

Second, SNC pays an annual dividend of \$1.00 per share, which gives its stock a 2.5% yield at today's levels. The company has also increased its annual dividend payment for 14 consecutive years, and its 4.2% increase in March puts it on pace for 2015 to mark the 15th consecutive year with an increase.

With all of the information provided above in mind, I think the post-earnings drop in SNC-Lavalin's stock represents a great long-term buying opportunity. Foolish investors should strongly consider beginning to slowly scale in to positions over the next couple of trading sessions.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

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