4 Reasons SNC-Lavalin Group Inc. Is a Great Dividend Stock for Contrarian Investors

Description

Investors don't often get the chance to buy a world-class dividend-growth stock at a big discount, but the recent pullback in **SNC-Lavalin Group Inc.** (TSX:SNC) has created that opportunity.

Here are the reasons why I think this company deserves to be on your watch list right now.

1. Legal woes may not end as bad as expected

Canada's top engineering and construction company continues to battle its way through a series of fraud and corruption scandals connected to deals in Libya and Bangladesh.

The World Bank has already given SNC a 10-year ban on bidding for any of its global projects. Now, the company could face a similar penalty in Canada.

The RCMP has charged SNC for paying bribes to former Libyan officials. The company plans to plead not guilty and has indicated it might be willing to pay a fine for the transgressions of its former employees. The scandals have beaten down the company's share price to the point where SNC looks very cheap.

It's understandable that investors are giving the stock a wide berth, and the outcome of the RCMP charges is anyone's guess, but a recent string of important Canadian deals suggests the end result might not be the worst-case scenario.

Since the RCMP charges were announced, SNC has won contracts to build and maintain Montreal's new Champlain Bridge and manage Atomic Energy Canada Limited's nuclear laboratories. The company has also been picked to build and maintain a major transit project in Toronto.

Some analysts think SNC is simply too important to ban and believe the government will amend its regulations to ensure the company can continue to win projects in the country.

2. Steady earnings

SNC just reported Q2 2014 adjusted net earnings of $0.17 per share and $0.83 per share for the first six months of the year. The company also maintained its earning guidance of $1.30-1.60 per share for the year. Analysts thought the second-quarter number would be better, but the miss appears to be due to one-off items rather than a broader issue.

3. Dividend growth and share buybacks

SNC pays a dividend of $1 per share that yields about 2.5%. The company has increased the payout every year for the past decade and recently launched an aggressive share repurchase program. That’s music to the ears of any contrarian investor.

4. Attractive valuation

SNC finished Q2 with cash and short-term investments of $1.9 billion. Once you strip out roughly $900 million in long-term debt you get about $1 billion left over. That’s about $6.70 per share. The company is planning to sell its stake in Highway 407 and some analysts believe that could fetch about $3 billion, which translates into another $20 per share. At the end of June, the company’s revenue backlog was $12.4 billion.

The current stock price is just $40.50 per share, so investors are getting the backlog, other assets, and the rest of the company’s operations for about $14 per share.

That’s just 10 times a conservative $1.40 per share of earnings for what is essentially the engineering and construction (E&C) business. One estimate puts the value of the E&C division at more than double that number.

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