



## SNC-Lavalin Group Inc.: Is it Finally Time to Buy?

### Description

**SNC-Lavalin Group Inc.** (TSX:SNC) has been in the doghouse for a few years now, but some contrarian investors see a lot of value in the name. Let's take a look at the current situation to see if Canada's largest engineering and construction company deserves a spot in your portfolio.

### Troubles with the law

SNC's difficulties are well known. The company ran into trouble over dodgy deals signed in Libya and Bangladesh, and those situations have been an endless distraction for management and extremely punitive for investors.

The World Bank has already given the company a 10-year ban on bidding for its projects due to the Bangladesh scandal and the RCMP has charged the firm with corruption and fraud in connection to the Libya deals. That case could result in a similar 10-year ban from the Canadian government.

SNC has made a lot of changes to clean up its act. The board brought in a new CEO, and all employees connected to the corruption problems have been purged from the company. It makes sense that investors would want to give the stock a wide berth until the legal situation gets settled, but waiting until the issues are resolved could mean missing out on a great opportunity.

### New deals

Many contrarians are looking at some of the recent deals signed by the company and are concluding that the worst-case scenario in the RCMP case might not come to fruition.

Since the RCMP charges were announced in February, SNC has won several new contracts at both the federal and provincial levels. The company is a 50% partner in the contract just awarded to build and maintain Montreal's new Champlain Bridge. This is a multi-decade deal and pundits say the federal government would not have awarded SNC the contract if it thought the company was going to be banned from doing such work.

SNC and another group of partners have also been given the green light to manage Atomic Energy

Canada Limited's nuclear laboratories. In Ontario, SNC has been chosen as the winning bidder to construct a major public transit extension.

In light of these deals, some analysts believe SNC might be too important to ban, and the end result of the RCMP charges might be a fine.

### **Steady earnings and dividend growth**

SNC reported adjusted Q2 2015 earnings of \$0.17 per share and \$0.83 per share for the first half of the year. Management maintained its full 2015 earnings guidance of \$1.30-1.60 per share. Despite the troubles, SNC has grown its dividend every year for the past decade and recently announced a massive share buyback program.

SNC pays a dividend of \$1 per share that yields about 2.6%.

### **Valuation**

SNC looks extremely cheap.

The company is planning to sell its stake in Highway 407, which analysts believe could be worth as much as \$3 billion. That translates in to about \$20 per share. SNC finished Q2 2014 with net cash of roughly \$900 million once the debt is stripped out, so that's worth another \$6.70 per share. The company also finished Q2 with a \$12.4 billion revenue backlog.

Right now, the stock trades at \$38.70 per share. This means investors are paying just \$12 per share for the project backlog, the company's other assets, and all the remaining operations. That translates into less than 10 times earnings for the low end of 2015 guidance and what is essentially the company's engineering and construction division. One estimate puts the value of that part of the business at \$29 per share.

### **Should you buy?**

At this point, most of the bad news is already priced into the stock. The company looks very attractive from a valuation point of view, and the upside could be significant if the company manages to avoid a ban in Canada.

Contrarian investors might want to start a position to get ahead of the curve.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

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Author

aswalker

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