



## Could SNC-Lavalin Group Inc. Double?

### Description

It's not often that dividend fans get a chance to be value investors, but the market pullback is creating exactly that opportunity.

Here are the reasons why I think the dividend crowd should go a bit contrarian and consider adding **SNC-Lavalin Group Inc.** (TSX:SNC) to their portfolios.

### Troubled past

SNC-Lavalin has been a train wreck for the past five years as corruption scandals and a meltdown in the mining and energy sectors have plagued the company and its stock.

Canada's largest engineering company got into trouble for doing dodgy deals in Libya and Bangladesh. Management has worked hard to put the issues to bed, but they keep lingering like an eternal nightmare.

The World Bank has already given SNC-Lavalin a 10-year ban on bidding for contracts with the organization, and earlier this year the RCMP charged the company with corruption and fraud. That case could result in a contract ban here in Canada.

With all the uncertainty, you might wonder why anyone would buy the stock. Well, here's the scoop.

### Looking ahead

SNC-Lavalin continues to win big contracts in Canada and around the world.

The company was recently chosen by the federal government to build and maintain Montreal's new Champlain Bridge. SNC-Lavalin also won the contract to construct a major public transit extension in Toronto. Other wins in Canada include a power contract in Ontario, a wind terminal switch-yard project in B.C., and a deal to manage and operate a unit of Atomic Energy of Canada Limited.

Overseas, the company has announced large deals in Iraq, France, South Africa, and Qatar.

All of these contracts have been signed in the last five months, which indicates there isn't much concern at home or abroad about SNC-Lavalin's future.

## Earnings

Adjusted earnings per share for the first half of 2015 came in at \$0.83 per share. Management is maintaining its full-year guidance for \$1.30-1.60 per share. That's not bad in the current environment, and the growing revenue backlog should lead to stronger numbers in the coming years.

## Dividend growth and share buybacks

The company has increased the dividend every year for the past decade. The current dividend of \$1.00 per share yields about 2.6% and the payout looks safe.

SNC-Lavalin recently announced plans to buy back up to 10% of the outstanding stock. Management obviously thinks the shares are heavily discounted if it is willing to put so much money into a share repurchase program.

## Value play

SNC-Lavalin is certainly a risky bet, but the market appears to be punishing the stock too much for its woes.

The company currently trades at \$38 per share. If you strip out the net cash that is sitting on the balance sheet and the \$3 billion the market thinks SNC-Lavalin will get for its stake in Highway 407, investors are only paying \$11 or \$12 per share for the rest of the company, which is essentially the engineering and construction (E&C) unit. One estimate puts the value of the E&C business at \$29 per share.

## Could the stock double?

The string of big wins in Canada and abroad suggests the company is likely to survive the scandal issues, and many analysts believe the RCMP situation will simply result in a fine.

The board just replaced the CEO, so things are not exactly rolling along perfectly, but the stock has been beaten up so badly that it could move significantly higher on news of the 407 sale or a better-than-worst-case conclusion to the RCMP charges.

A double in the next three years is certainly possible, especially if the oil and mining sectors turn the corner.

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