



## SNC-Lavalin Group Inc.: Should This Be Your Top Contrarian Pick?

### Description

**SNC-Lavalin Group Inc.** (TSX:SNC) has seen better days, but the embattled engineering company could be one of the best contrarian picks in the market right now.

Let's take a look at the current situation to see if the stock deserves to be in your portfolio.

### Legal woes

Corruption scandals continue to hinder SNC-Lavalin's stock.

The company got into trouble with the World Bank in 2013 when evidence emerged that SNC-Lavalin didn't follow the rules when it secured a contract to build a new bridge in Bangladesh. As a result, SNC-Lavalin is serving a 10-year ban on all World Bank projects.

Here in Canada, the company is currently in hot water with the RCMP for doing some unscrupulous deals in Libya. That situation has kept investors on the sidelines for the better part of this year because SNC-Lavalin could be banned from bidding on Canadian contracts if the RCMP lays charges.

With all the corruption noise, you might think the stock should be avoided, but the company continues to win important contracts in Canada and abroad, and that has pundits thinking the market might be overreacting.

### Canadian deals

SNC-Lavalin has won several important Canadian contracts since the RCMP brought charges against the company.

The Canadian government recently picked SNC-Lavalin to build and maintain Montreal's new Champlain Bridge. The company also received the green light to manage and operate a unit of Atomic Energy of Canada Limited.

At the provincial level, SNC-Lavalin has been chosen to build a major transit extension in Toronto and

a wind terminal switchyard project in British Columbia.

These deals don't guarantee that the company will completely avoid a penalty as a result of the RCMP charges, but pundits are looking at the big contract wins and thinking that SNC-Lavalin might be too important to ban.

### **Earnings, dividends, and share buybacks**

SNC-Lavalin will report its Q3 2015 earnings on November 5.

The company earned adjusted earnings per share of \$0.83 in the first half of this year and guidance is set at \$1.30-1.60 for all of 2015.

SNC-Lavalin pays an annualized dividend of \$1.00 per share, which yields about 2.4%. The distribution is easily covered even if the back half of 2015 comes in at the low end of the company's earnings estimates.

SNC-Lavalin has increased the dividend every year for the past decade. The company also plans to buy back up to 10% of its outstanding stock.

### **Should you buy?**

SNC-Lavalin has an impressive backlog of projects and the company could see a boost in Canadian contracts in the coming years if the Trudeau government follows through on its plans to spend on big infrastructure projects.

The stock looks very cheap right now, and any resolution of the RCMP charges that avoids an outright ban would send the shares much higher. The name still carries some risk, and I would wait for the Q3 numbers to come out before buying the stock, but the long-term upside potential looks attractive.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:ATRL (SNC-Lavalin Group)

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