



SNC-Lavalin Group Inc.'s Q3 Results Fail to Impress: Should You Buy on the Dip?

Description

SNC-Lavalin Group Inc. (TSX:SNC), one of the world's largest engineering and construction companies, announced third-quarter earnings results on the morning of November 5, and its stock responded by falling over 2.5% in the day's trading session.

Let's break down the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

The results that failed to impress the market

Here's a summary of SNC's third-quarter earnings results compared with its results in the same period a year ago.

Metric	Q3 2015	Q3 2014
Adjusted Earnings Per Share	\$0.78	\$0.78
Revenue	\$2.43 billion	\$2.00 billion

Source: SNC-Lavalin Group Inc.

SNC's adjusted earnings per share remained unchanged and its revenue increased 21.4% compared with the third quarter of fiscal 2014. The company's flat earnings-per-share performance can be attributed to its weighted-average number of diluted shares outstanding decreasing 1.9% to 149.98 million, which was able to offset the negative impact of its adjusted net income decreasing 3.2% to \$115.8 million.

Its very strong revenue growth can be attributed to its acquisition of Kentz Corp., which was completed in August 2014 and was a primary driver behind its revenues increasing 133.3% to \$1.05 billion in its Oil & Gas segment and 5.7% to \$512.72 million in the Infrastructure & Construction sub-segment of its Infrastructure segment.

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

1. Revenues decreased 8.9% to \$725.78 million in its Infrastructure segment
2. Revenues decreased 31.6% to \$213.06 million in the Operations & Maintenance sub-segment of its Infrastructure segment
3. Revenues increased 49.4% to \$401.99 million in its Power segment
4. Revenues decreased 17.9% to \$202.85 million in its Mining & Metallurgy segment
5. Gross profit decreased 8.3% to \$385.31 million
6. Revenue backlog increased 1.7% to a record \$12.73 billion

SNC also announced that it will be maintaining its quarterly dividend of \$0.25 per share, and the next payment will come on December 3 to shareholders of record at the close of business on November 19.

Should you buy or avoid SNC-Lavalin shares today?

It was a weak quarter overall for SNC, so I think its stock responded correctly by moving lower. However, I do think the stock represents an attractive investment for the long term, because it trades at inexpensive forward valuations and because it is one of the top dividend-growth plays in the market today.

First, SNC's stock now trades at just 20.1 times fiscal 2015's estimated earnings per share of \$2.08 and only 16.6 times fiscal 2016's estimated earnings per share of \$2.52, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 41.6 and the industry average multiple of 24.7.

I think SNC's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of \$50 by the conclusion of fiscal 2016, representing upside of more than 19% from current levels.

Second, SNC pays an annual dividend of \$1.00 per share, which gives its stock a 2.4% yield. This 2.4% yield may not seem impressive at first, but it is very important to note that the company has increased its annual dividend payment for 15 consecutive years, and its low payout ratio could allow this streak to continue in 2016.

With all of the information above in mind, I think Foolish investors should consider using the post-earnings weakness in SNC-Lavalin to begin scaling in to long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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