



Does SNC-Lavalin Group Inc. Deserve to Be in Your Portfolio?

Description

SNC-Lavalin Group Inc. (TSX:SNC) is working its way through one of the most difficult periods of the company's history, but a closer look at the details reveals an interesting opportunity.

Corruption concerns

Most of SNC-Lavalin's troubles are connected to dodgy deals done by a handful of the company's former employees.

The engineering firm is already riding out a 10-year ban imposed by the World Bank for misbehaving on a bridge deal in Bangladesh, and recent charges by the RCMP relating to deals in Libya threaten a similar penalty here in Canada.

Add to this a global slowdown in the energy and mining sectors and you are looking at some pretty dark clouds hanging over the company.

Positive developments

Most investors are simply giving the stock a wide berth until the skies clear, but contrarian types are looking at a flurry of recent deals and wondering if the company has already begun to turn the corner.

The RCMP charges haven't impacted SNC-Lavalin's ability to secure major Canadian contracts. In fact, the company has put together an impressive string of wins since the charges were announced.

SNC-Lavalin and its partner were recently chosen to build and maintain Montreal's new Champlain Bridge. That is a multi-billion dollar deal that could span decades.

The company is also part of a group that has been handed the responsibility of managing and operating a key unit of Atomic Energy of Canada Limited.

The provincial governments are also giving SNC-Lavalin big deals. The company has been chosen to build a massive transit extension in Toronto as well as a wind-terminal switchyard project in British

Columbia.

There is no guarantee that SNC-Lavalin will emerge from the RCMP issue unscathed, but some pundits are thinking the end result might not be the worst-case possibility.

Earnings and dividends

SNC-Lavalin reported decent Q3 2015 earnings and announced a record revenue backlog of \$12.7 billion.

The company pays a quarterly dividend of \$0.25 per share that yields about 2.4%. SNC-Lavalin isn't known as a dividend-growth stock, but the company has increased the distribution every year for more than a decade.

Should you buy?

When you compare the sum of the parts to the market value of the company the stock starts to look pretty cheap. SNC-Lavalin is planning to sell its stake in Highway 407, which some analysts believe could fetch as much as \$3 billion. That would translate into about \$20 per share, or just under half of the current stock price.

The company finished Q3 with total cash and short-term investments of \$2.45 billion. Long-term liabilities are about \$1.5 billion, so there is more than \$6 per share in cash and cash equivalents.

That means you are only paying about \$16 per share for the massive revenue backlog plus the company's other assets. One estimate puts the value of that part of the business as high as \$29 per share.

This is a contrarian pick, but SNC-Lavalin is a global leader in its field and investors with a long-term outlook might want to consider the stock while it is still cheap.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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