



Is it Safe to Buy SNC-Lavalin Group Inc. Yet?

Description

Most investors are giving **SNC-Lavalin Group Inc.** (TSX:SNC) a wide berth until the legal troubles surrounding the company are finally resolved.

Let's take a look at the current situation to see if it makes sense to take a contrarian position in the stock while others are avoiding the name.

Corruption and fraud issues

SNC-Lavalin's difficulties are connected to a series of legal woes surrounding contracts that were obtained using unscrupulous business practices.

Canada's iconic engineering firm is already serving a 10-year ban on World Bank projects. The organization determined that SNC had not followed the rules when it won a contract to build a new bridge in Bangladesh.

Closer to home, the company is facing RCMP charges related to contract secured in Libya. That process is ongoing and could result in a similar ban on work in Canada.

The RCMP situation is the biggest concern for investors right now, but some analysts say the market should look at a string of recent contract wins as evidence that SNC-Lavalin could escape the process with a lesser penalty.

New deals

The RCMP charges have not had a negative impact on SNC-Lavalin's ability to win new contracts in Canada, and a recent agreement with the Government of Canada's new Integrity Regime has cleared the way for the company to continue bidding, while the RCMP case works its way through the legal process.

Since the RCMP charges were announced, SNC-Lavalin has secured a number of important Canadian contracts.

The company and its partner were chosen to build and maintain Montreal's new Champlain Bridge. That contract could last for decades. SNC-Lavalin is also part of a group that has been chosen to operate and manage a unit of Atomic Energy of Canada Limited.

At the provincial level, SNC-Lavalin was recently chosen to construct a larger transit extension in Toronto and just got the nod from Infrastructure Ontario to modernize 19 Ontario Disability Support Program offices.

The company is even winning Canadian awards. On November 4, SNC-Lavalin was awarded two Gold Awards at the Canadian Council for Public-Private Partnerships' awards event for excellence, innovation, and effective procurement on two Canadian contracts.

Financials

SNC-Lavalin finished Q3 2015 with \$2.45 billion in cash and short-term investments. Long-term liabilities were just \$1.5 billion. The company has a record revenue backlog of \$12.7 billion and plans to sell its stake in the Highway 407 toll road, which some analysts believe could fetch \$3 billion.

The net cash position plus the estimated value of the 407 add up to about \$26 of the company's current stock price of \$42 per share. That means investors are paying just \$16 per share for the rest SNC-Lavalin's assets plus the large order backlog.

One estimate puts the value of that part of the company at \$29 per share.

Should you buy?

SNC-Lavalin is still a world-class engineering firm. If you believe the company will avoid a ban in Canada, it might be worth taking contrarian position in the stock.

CATEGORY

1. Investing

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1. TSX:ATRL (SNC-Lavalin Group)

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