Should Investors Buy SNC-Lavalin Group Inc. Ahead of a Potential Acquisition?

Description

With a market capitalization of $8.3 billion and $8.5 billion in revenue, **SNC-Lavalin Group Inc.** (TSX:SNC) is strides ahead of its competitors in size and scale and aims to widen this gap through well-timed and well-positioned acquisitions. SNC's goal of acquisitions is to further diversify its revenue base in regard to its sector and geographic reach as well as to build its recurring revenue base and increase its global scale.

SNC shares have performed quite well in the last year with a healthy 17% return, which is pretty much in line with the market return in this same period. Looking at a longer time horizon, five years, we see that SNC has had a 42% return.

So, shareholders have done well with this stock, despite the corruption charges against it related to its business dealings in Libya. The company is still fighting these charges in court, but these accusations have definitely hurt its reputation with clients/potential clients as well as investors.

Offer for WS Atkins plc

SNC recently announced that it has made an offer to purchase **WS Atkins plc** for approximately $3.5 billion, which is to be financed via a combination of debt and equity, but mostly with debt. WS Atkins trades on the London Stock Exchange, and half of its revenue comes from Europe, but it has limited exposure to the power segment as well as to Asia, which are areas that SNC has limited exposure to as well.

SNC shares are no bargain

SNC currently trades at a price-to-cash flow multiple of over 20 times, a P/E multiple of over 32 times, and a price-to-book multiple of over two times. The shares are by no means cheap.

Also, there is the overhang of the corruption case that is going to trial in 2018. We do not know what the outcome will be or what fines the company will have to pay in a settlement if it is found guilty.

An alternative investment in the construction and infrastructure business

While **Aecon Group Inc.** (TSX:ARE) has its own set of risks, such as the company's search for a new CEO and everything that comes with such a transition, the fact that the market is not valuing its shares as highly means that it has more breathing room.

Aecon trades at a price-to-cash flow multiple of nine times and a price-to-book multiple of 1.3 times, and it has a one-year return of 6.5%. The company is on a path to increase margins, and this should bring the multiples and the stock price higher. This has already begun to take hold.

In the latest quarter (the fourth quarter of 2016), EBITDA margins were up in all divisions, and the company-wide EBITDA margin was 7.7% versus 6.6% in the same quarter last year. This compares to margins of 5.1% in 2011 and 6% in 2012, so progress has been steadily made.

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