



1 Undervalued Canadian Stock Set to Realize Huge Long-Term Synergies

Description

SNC-Lavalin Group Inc. (TSX:SNC) is an engineering and construction company whose stock has been on a roller coaster ride over the past decade where the stock price spent a majority of its time fluctuating between the \$40 and \$60 levels. The company recently made its largest acquisition to date by picking up British engineering and design consulting company WS Atkins PLC in a deal worth \$3.6 billion.

Many synergy opportunities could arise from this acquisition over the next year and beyond. There are over \$120 million worth of synergies that could be unlocked within this first year of operation, which will boost the company's top line. The management team expects to realize these synergies by the conclusion of 2018. This could be the much-needed boost to get SNC above its long-term resistance level of \$60.

The deal lowers SNC's overall business risk profile thanks to WS Atkins's existing contracts, which could potentially open doors for SNC to enter the nuclear design and construction business, which is already a fair chunk of WS Atkins's portfolio. The WS Atkins deal will also provide a gradual increase in SNC's long-term margins, which will be a slow and steady long-term driver of SNC's earnings.

There's no question that the WS Atkins acquisition will make SNC an incredibly efficient operator with a more diversified geographic presence, which will mitigate risk. Fool.ca contributor Chris MacDonald [believes](#) that SNC is now well positioned to be one of the world's premier engineering and construction businesses, and I think he's right on the money.

What about value?

The stock currently trades at a 32.4 price-to-earnings multiple with a 2.1 price-to-book multiple. Both are substantially lower than the company's five-year historical average multiples of 40.3 and 2.8, respectively.

SNC definitely looks cheap right now, and I think the WS Atkins deal will be a much-needed catalyst that will propel the stock higher over the medium and long term. The synergies arising from the deal will make SNC a better medium- and long-term play for investors who are looking to play the trend in

increased infrastructure spending.

I'd buy the stock now while it's trading at a discount to its intrinsic value. There's a considerable margin of safety involved with buying shares at current levels, and I believe there's a very good chance that we'll see the stock at much higher levels by the end of next year, when some of the immediate synergies are realized.

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