Why You Shouldn't Expect Snc-Lavalin Group Inc.'s Stock to Rise Past $60

Description

Snc-Lavalin Group Inc. (TSX:SNC) is an engineering and construction company with customers in a variety of industries. Its segments include mining, oil and gas, power, and infrastructure. Snc-Lavalin is a well-known brand around the world with offices in over 50 countries.

In 2016, almost three-quarters of the company's revenue came from infrastructure and oil and gas, and more than half of the company's sales came from North America. Snc-Lavalin does not have a large presence in Europe with just 5% of sales coming from that part of the world. However, the company recently acquired WS Atkins Plc, which offers similar services to Snc-Lavalin, and the company is based in the U.K., which should help Snc-Lavalin expand its presence in Europe.

In the past month, the company's stock has risen almost 8%, but there are a couple of reasons you shouldn't expect much more of an increase.

Sales and profits have been struggling

In its second-quarter earnings, Snc-Lavalin saw revenues decline from over $2.1 billion a year ago to $1.9 billion for a drop of 8%. The company did see a 54% year-over-year improvement in its bottom line, but that was mainly a result of a gain on the company's disposal of its head office building, which contributed $115 million to operating income, which totaled $145 million.

In its last full fiscal year, revenue of $8.5 billion was down almost 12%, and the company's bottom line dropped by 37%. The acquisition of WS Atkins will certainly help Snc-Lavalin increase its top and bottom lines, and, as a result, the company has updated its guidance for 2017. Snc-Lavalin now expects to post an earnings per share this year between $2 and $2.20, and although this is up from previous estimates, it would still be a decline from the $2.70 that the company posted a year ago.

The stock does not have much upside left

Snc-Lavalin currently trades at 31 times its earnings and just over two times its book value. The stock trades at a very similar multiple to **Aecon Group Inc** (TSX:ARE), which is also priced at just under 32 times earnings, and is slightly under **Stantec Inc.'s** (TSX:STN)(NYSE:STN) multiple of 33.

In the past year, the company's stock has been stuck in a range between $50 and $60 a share, and it would take an increase of just 6% for the stock to reach its high for the year. In the past year, the shares have provided investors with returns of less than 5%.

Why investors should look elsewhere

Snc-Lavalin is dependent on investments in oil and gas, and as the industry cuts back on capital spending, the company will see less work and revenue come from that segment. Although the stock has returned to highs from 2014, there is little reason for the stock to go any higher than where it is now. The company's dividend of less than 2% also does not offer investors much incentive to wait for an improvement either.

Although the share price might see an increase in the near term, ultimately, for the stock to come close to its all-time high of $63, it will have to show much more improvement in its top and bottom lines.

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Date
2025/08/17
Date Created
2017/09/26
Author
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