



## Should You Stay Away From This Bargain?

### Description

**SNC-Lavalin Group** (TSX:SNC) stock has never traded at such a cheap price-to-earnings multiple for 17 years. However, there's a reason for the drag down.

#### The stock fell 14% due to a past issue

The stock has declined in the last couple of days due to a past issue that has come back to haunt it. Rolling back to 2012, the company was found to have millions of missing funds. It led to the ouster of the SNC-Lavalin CEO at the time.

Fast forwarding to 2015, corruption charges against SNC-Lavalin were laid on the allegation of bribery. On Wednesday, the company gave an update on the issue, stating that the federal prosecutor will not invite SNC-Lavalin to negotiate a remediation agreement at this time.

Since the news, the stock has fallen about 14% to \$44.36 per share as of writing.



#### The improving business

The company has improved. Since 2012, SNC-Lavalin has changed senior leadership (at the board

and management levels) and developed and built an ethics and compliance framework to incorporate integrity as a part of the company's culture. It also made a couple of acquisitions, which has helped it expand its capabilities in the sectors of oil and gas, infrastructure, and nuclear.

The leading engineering and construction company has annualized revenues of about \$10 billion. Its large contributors in the first half of the year include the sectors of oil and gas (26% of revenue), engineering design and project management (32%), and infrastructure (21%).

In the company press release on Wednesday, it stated it will continue to focus on "bringing value to its shareholders and other stakeholders by continuing to offer industry leading engineering and professional services and by growing its business, all the while vigorously defending itself against the charges. The company is reviewing its options to appeal this decision."

### Looking ahead

Taking a step back from the allegation, SNC-Lavalin's [business is growing strong](#). Its backlog increased by nearly 46% to \$15.2 billion at the end of Q2 2018 compared to the end of 2017.

The company estimates to generate adjusted diluted earnings per share of \$3.60-3.85, which would imply a forward multiple of about 12.

### SNC-Lavalin's dividend and upside potential

SNC-Lavalin has increased its dividend per share for 17 consecutive years. It currently offers a yield of nearly 2.6% with a sustainable payout ratio of about 35%, and its recent dividend growth was about 4-5% per year.

The company is trading at a multiple that's at least five times lower than its closest peers. If the uncertainty cloud around the case goes away at some point, it should trade close to \$65 per share for an upside potential of about 46%.

### Should you stay away from the bargain or back up the truck?

Because of the overhanging issue, SNC-Lavalin stock will likely continue to be depressed. However, it's [trading at a discount](#) because of this. Therefore, if any positive turns in this issue occur, the stock will have significant upside.

To sidestep this issue, investors can consider SNC-Lavalin's peers, such as **WSP Global**. However, you're not going to get big discounts on the peers as you would for SNC-Lavalin (assuming the issue will eventually pass).

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