



SNC-Lavalin Group (TSX:SNC) Stock Tanks 25%: Should You Buy the Sell-Off?

Description

SNC-Lavalin (TSX:SNC) just revealed a major issue discovered on one of its contracts that will significantly hit earnings.

Traders have hammered the stock, sending it down as much as \$15 per share from \$48.50 to \$33.50. Contrarian investors are now looking at the sell-off and wondering if this might be a good opportunity to add the stock to their [portfolios](#).

What's the scoop?

A problem connected to a mining contract is the source of the surprise. Management didn't give any specifics, other than saying the issue is connected to a deal secured in 2016.

SNC said it will report adjusted profit of \$1.15-1.30 per share from its engineering and construction business for 2018, compared to previous guidance that was more than double that level. For the entire company, full-year 2018 earnings are now expected to be \$2.15-2.30, compared to earlier estimates of \$3.60-3.85.

Keeping with a common strategy among big companies of getting all the bad news out at once, SNC-Lavalin also said it is taking a \$1.24 billion charge on the value of its energy division due to the difficult relationship that has emerged between Canada and Saudi Arabia. SNC has significant contracts in the country, where it says 15% of its employees are working on various projects.

The subsequent plunge in the stock has essentially wiped out all the gains the company managed to deliver in the past few years after the fallout from a series of corruption scandals.

SNC made a major move into the energy construction sector when it spent \$3.6 billion in 2017 to acquire U.K.-based WS Atkins. The energy unit, which was partly responsible for the stock's surge from \$40 to \$60 per share, was widely expected to be a huge driver of growth in the coming years.

Trouble at home

The news follows a decision last year by the Canadian government to refuse to accept a proposed settlement regarding charges filed against SNC-Lavalin connected to previous corruption probes.

Should you buy?

SNC-Lavalin is a major player in the global infrastructure, transportation, and energy sectors with world-class project capabilities. The sell-off is probably overdone, given the strong project backlog and the long-term potential for the company. Contrarians can pick up a 3% [yield](#) and a shot at some nice gains on a potential rebound.

At this point, however, it might be best to sit back and wait for the dust to settle. Every time it appears SNC-Lavalin has finally put its troubles in the rear-view mirror, another surprise emerges.

Other opportunities might be better bets right now.

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