3 Important Reasons to Buy SNC-Lavalian (TSX:SNC) Shares Today

Description

Last week, **SNC-Lavalin Group** (TSX:SNC) made news when it disclosed a couple of events that would push 2018 earnings below analyst expectations. A single project in the mining and metallurgical segment is experiencing some difficulty, and the company's operations in the Middle East have been impacted by both the tepid energy market and deteriorating relations between Canada and Saudi Arabia.

Investors really didn't like the tone of the report, sending shares down some 25%. The stock has since recovered somewhat, but it's still languishing well under $40 per share.

If you're a value investor, an opportunity like this is exactly what you should be looking for. Here are three reasons why you should be loading up on SNC shares today.

Highway 407

SNC owns 16.67% of Highway 407, a toll road that runs through the heart of the Greater Toronto Area. This is an incredibly valuable asset.

Highway 407 has seen a steady increase in the amount of traffic as Toronto expands and other highways become more congested. By increasing rates and the total number of drivers who use the road annually, it has been able to grow revenue by approximately 7% a year over the past decade. Since most of the costs were in building the road, this leads to plenty of predictable cash flow.

SNC publicly mulled selling a 6.67% stake in the project back in the summer, a sale analysts suggested could be worth as much as $2 billion. This implies the whole stake is worth approximately $5 billion, or close to $30 per share. This values the rest of the business at just $6 per share.

Trading patterns

I'm not usually one to pay attention to stock charts, but a quick glance at SNC's long-term chart shows

today is a good time to buy.

Shares have dipped significantly four times in the last decade, falling below $40 per share in 2009, 2012, 2015, and again in 2019. The first three dips saw shares rebound sharply and trade at more than $50 just a year or two later.

There's no guarantee the stock does this again, of course. But long-term investors have to like that history.

SNC is always going to be a more lumpy growth name. It's the nature of the business. Investors can use this to their advantage and pick up shares when the rest of the market hates the company.

An impressive dividend

SNC-Lavalin never gets mentioned in the same breath as Canada's other top dividend stocks, which is too bad. It has an impressive streak of dividend growth behind it.

Since 2001, the company has hiked its dividend every year, increasing the payout from $0.02 per share each quarter to $0.287 per share quarterly today. SNC has been raising its dividend each year in February for the past few years, a streak investors can count on to continue.

The dividend is easily affordable, even if SNC's near-term outlook is a little dim. The payout ratio has hovered at approximately 50% of earnings over the past few years. Note that this payout ratio should remain relatively steady next year; the stock trades at just 15 times projected earnings of $2.39 per share.

The current dividend is 3.1%, which is quite high compared to SNC's previous yields. That indicates today is probably a good time to buy.

The bottom line

The last time SNC shares traded at this price, it was a fantastic time to buy. Less than a year later, an investment was up approximately 70%.

When times get rough for the core engineering and construction business, investors sell first and ask questions later. History has shown this is a mistake. The time to buy is today, when shares don't trade for much more than the Highway 407 stake.

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