



Is This Undervalued Stock Worth the Risk?

Description

It has been a rough couple of weeks for **SNC Lavalin** (TSX:SNC). After rebounding off its December 21st low, the company was slowly making a comeback. Then fourth-quarter earnings hit, and the company's share price crashed, losing almost 30% of its value.

This was one of the largest single-day drops in company history. The question investors have is, was the [drop overdone](#)?

Several headwinds

There was plenty of negatives to digest following the company's fourth-quarter and year-end results. For starters, the company suffered a \$1.24 billion writedown in its energy unit. This was a direct result of the Canada-Saudi Arabia political issues.

Given the tension between the two countries, the company is considering exiting Saudi Arabia. In years past, this was a significant geographical area of growth for the company.

Secondly, the company failed to reach a negotiated settlement with Canadian prosecutors in relation to its bribery cases. Unfortunately, it is estimated that the lack of a deal cost the company approximately \$5 billion in lost contracts. Internationally, its reputation continues to suffer, and it is losing significant business.

To make matters worse, Canada's prime minister has been accused of meddling in the SNC Lavalin case. Although Trudeau was quick to dismiss the allegations, he has been accused of pressuring the justice minister to be lenient on the company.

Finally, the company incurred additional costs and is embroiled in a contract dispute with an unnamed company and project. Analysts, however, have suggested that the company's issues stem from two contracts it announced with Chile's state-owned copper producer Codelco. The dispute is expected to have a significant impact on results.

Guidance and valuation

As a result of the numerous headwinds, the company reduced its profit forecast for the current fiscal year. It also says that its target of \$5 earnings per share by 2020 is most likely not attainable. It estimates that the issues have set the company back at least a year or more.

The end result was a flurry of downward revisions. Although the company is trading at decent valuations, the downward risk given the headwinds make earnings difficult to predict. If the company's reputation continues to suffer and it loses out on additional contracts, I would expect earnings to be revised lower once again.

Likewise, the most recent news of Trudeau meddling will only delay any potential deal with Canadian prosecutors. In fact, any deal will now be scrutinized, and it is unlikely that the company will receive any preferential treatment.

Foolish Takeaway

Despite trading at [decent valuations](#), SNC is faced with many challenges. A hit to a company's reputation is tough to value. What we do know, however, is that it is losing out on billions in contracts. At this point, the risk may not be worth the reward, as the future is too difficult to predict.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/20

Date Created

2019/02/11

Author

mlitalien

default watermark

default watermark