How to Profit on Bad News From an Otherwise Good Company

Description

Occasionally, an opportunity can arise in the market whereby a company that is completely engulfed with less-than-stellar media coverage witnesses a sharp drop in price, despite operating (or having a plan to operate) in an otherwise profitable manner. Usually, that long-term opportunity comes in form of some short-term loss, such as an earnings miss, or when a lucrative acquisition proves too costly, at least initially.

At the moment, the company that is getting that media attention is **SNC-Lavalin** (TSX:SNC), which, despite a series revised guidance announcements, still holds some long-term promise for investors.

Let's take a look at SNC and determine whether the short-term risk is worth the long-term reward.

What's going on with SNC?

If you've noticed an inordinate amount of media attention being given to SNC lately, you're not mistaken. SNC made headlines in recent weeks, as the company announced it would miss earnings targets thanks to an ongoing dispute with a client over a mining venture in Latin America and continued headwinds in the oil and gas sector.

Following that initial update, SNC announced yet another guidance update earlier this month, with the company now expected to earn $0.95 per share *less* than previously forecasted and incur a whopping $350 million loss in the fourth quarter.

Adding to those woes is the long-term potential fallout over the interaction, if any, between the now former justice minister Jody Wilson-Raybould and the prime minister's office in relation to the prosecution of SNC. Wilson-Raybould is now expected to appear before a Commons justice committee, meaning that this issue, particularly in an election year, is far from over.

What does this mean for investors?

Between all of those issues, SNC's stock price has dropped significantly in recent weeks. In fact, the stock is now down over 28% in the past month alone, making it a heavily discounted option for value-seeking investors at the moment. In fact, the current stock price is now at its lowest level in nearly a decade, which is an intriguing opportunity for investors with long-term agendas.

For those that are unaware, SNC is one of the largest infrastructure and project management companies on the market with over $7 billion in annual revenue that is split between six core areas, including lucrative holdings in the oil and gas, infrastructure, power, and mining and metallurgy segments. The company has offices in 50 different countries and is responsible for some of the largest, most lucrative infrastructure projects ranging from the new Champlain Bridge to the Eglinton Crosstown LRT project in Toronto and the Skytrain Canada line in Vancouver.

That solid portfolio of projects is also backed up with what is now a very appetizing dividend. SNC's quarterly distribution currently provides an ample 3.42%, translating into an annual payout of $3.48 per share. If that weren't reason enough to consider SNC, investors can take solace in the fact that the company has provided annual increases to that dividend on an annual basis stemming back nearly two decades.

In short, the company has a strong (and large) portfolio of projects that is diversified around the world, offers a competitive, if not attractive dividend, and is trading at a heavy discount at the moment. In my opinion, SNC represents a rare and unique opportunity for investors looking to diversify their portfolio with an income-producing stock that is likely to see considerable growth in the future as well.

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