



## 1 Cheap Stock That Is Not Worth the Risk

### Description

With **SNC Lavalin Group** (TSX:SNC) in the news again, investors have to be shaking their heads in frustration. It seemed like the bad times were behind the company and only positive news was ahead. After all, it was only a couple of years ago when Donald Trump was elected and the promise of infrastructure spending was alive and well. SNC was past its negative news cycle, and the good times were about to roll.

Well, depending on your point of view, you either have another great opportunity to get into the stock once again or you might be thinking you'd be better off heading for the hills. After this latest controversy, I have to say that I am more likely to do the latter than the former.

It's really too bad that this has happened to the company once again. After all, its financial results weren't all that bad. In the third quarter of 2018, net income increased 17% over the third quarter of 2017. This increase even included acquisition expenses and other related costs. The double-digit increase seems to indicate a company that is operating quite well, not one on the verge of collapse.

Revenue for the period was essentially flat as compared to the third quarter of 2017, which isn't remarkably stellar. But there were some bright spots, with individual business segments like mining and metallurgy and infrastructure each [improving revenues](#) by 70% and 21%, respectively.

Its dividend isn't the highest, but it isn't terribly small either. If you are a contrarian investor with a taste for dividends SNC's 3.35% yield might be worth taking a look at. The dividend is currently strong as well, with a respectable payout ratio of around 60% of earnings. At this level, the dividend should be safe for some time.

The company also has a long history of dividend increases dating back years. In fact, I wouldn't be surprised to see another increase coming soon. The last increase represented a dividend hike of 5% that was declared in 2018.

So, is SNC a great investment at these levels, or should investors leave this stock alone? If you have a contrarian mindset, investing in SNC might not be a bad idea. It has been punished severely for headline-related issues while the company itself has been performing quite well.

The political risks and toxic headlines may be just creating another excellent entry point for long-term investors. After all, deals in the stock market don't come when times are good, they come when a company appears to be unattractive.

For me, though, this isn't a risk worth taking. Personally, I like to buy when the entire market, or at least an entire sector, is selling off. That way, you can snap up excellent companies at a time when everything is cheap, as was the case in late 2018. In this case, you are faced with a situation where there is significant risk on a specific company. This is a much harder situation to judge.

This is not a bad company, but is [the risk worth](#) the reward? You have to ask yourself: Is this such a fantastic opportunity to own a wonderful company at an irrationally reduced price? If the answer is no better than "maybe," it'd probably be a good idea to hold on to your cash for a while and take a pass on SNC.

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krisknutson

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