



Is SNC-Lavalin (TSX:SNC) Still a Buy Despite the Ongoing Scandal?

Description

SNC-Lavalin (TSX:SNC) has been one of the TSX's best long-term gainers over the past 20 years, returning a whopping 1,400% between June 1998 and June 2018. If you'd bought just \$10,000 worth of SNC shares at the start of that date range, you'd have had \$140,000 in the bank by the end — and that's not counting dividends.

But lately, SNC stock has been on a downturn. After sliding 25% from its June high to the year's end, it tanked by a further 24% this year. Rocked by [losses from Saudi Arabia](#) and a major political scandal, SNC shares have suffered a loss of shareholder confidence. But with sound financials and solid earnings growth, do they really merit the massive sell-off we've witnessed?

To answer that question, we'll need to look in detail at what this scandal is all about.

What the scandal is all about

The SNC-Lavalin scandal centres on a prosecution against the company for alleged fraud and corruption in Africa. The claim is that SNC sent over \$47 million worth of payments to officials in African countries to influence government decisions. The African Development Bank Group claimed that the payments were illegal and sued the company. SNC agreed to settle and paid \$1.5 million. An RCMP investigation followed shortly afterward.

The original case is more or less over and done with. However, a new scandal has emerged involving Trudeau's government, which has been accused of ordering a minister to [intervene in](#) criminal prosecution against the company. As a result, an ethics probe was launched, with considerable negative publicity directed toward the company.

How SNC could be affected

The present ethics probe does not pose any threat to SNC's revenue streams. The current investigation is being levied at Trudeau's government more so than SNC itself. The bigger threat is the

possibility of public outcry should the ethics probe turn up any dirt on the company. In that case, the company could suffer a loss of goodwill that could put future contracts in jeopardy.

Company details

If we leave aside unforeseen consequences resulting from the present inquiry, SNC is a pretty solid stock. The company is a contractor that works on projects all around the country; major ones have included Quebec's Jacques-Cartier Bridge, Saskatchewan's Ermine Power Station, and B.C.'s William R. Bennett Bridge. The company also has an international presence, having worked on Hydro power projects in India and oil and gas projects in the Middle East — among many others.

Infrastructure projects like these are big business, and SNC has grown into a behemoth based on its revenues. In 2017, the company earned \$382 million in net income on \$9 billion in revenue. Net income that year was up 49% from the same period a year before. In the past few years, SNC's profits have been on an uptrend, although 2014 saw a \$1.3 billion Hail Mary that has yet to be replicated. It's also worth noting that the stock is priced low at 15 times forward earnings, with a 3.4% dividend yield.

In all honestly, it doesn't look like the current scandal is going to put a major dent in SNC's fortunes. The bigger possible issue is an earnings miss in Q4, which officials have said may be coming. However, the outlook for 2019 is positive, with diluted EPS estimated in the \$3-3.2 range.

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Date

2025/08/26

Date Created

2019/02/23

Author

andrewbutton

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