Why Did SNC-Lavalin Group Inc (TSX:SNC) Stock Drop 27%?

Description

In January, shares of **SNC-Lavalin Group** (TSX:SNC) dropped 27% in a single day from $48 per share to $35 per share, erasing roughly $3 billion in market value. Since then, shares have drifted within the same trading range of around $37 per share.

With a history dating back to 1911, SNC-Lavalin is one of the largest engineering and construction companies in the world. Was the big one-day drop a buying opportunity, or is something more sinister behind the decline?

A dividend dynasty destroyed

Before we cover the cause of the drop, it's important to understand what SNC-Lavalin does.

SNC-Lavalin builds things, specifically infrastructure-related projects. Example contracts include clean energy generation, highway systems, mining facilities, nuclear power plants, and oil and gas infrastructure.

The company prides itself on being an end-to-end provider, meaning it can assist in nearly the entire production and management process of critical infrastructure. It's completed contracts that cover everything from niche industries to international mega-projects.

For decades, SNC-Lavalin built itself into a growth machine, delivering consistent dividends along the way. Since 1995, shares are up roughly 1,300%, outpacing globally renowned stocks like **Mcdonald's Corp** and **American Express Company**. Plus, the company regularly paid healthy dividends, often with a yield of 3% or more.

For 27 years it paid a steadily rising dividend. In February, that streak ended.

What happened?

On February 22, SNC-Lavalin was forced to cut its dividend for the first time since 1992. While it wasn't eliminated entirely, the payout was slashed from $0.287 per share to just $0.10. A large fourth-quarter loss was to blame.

While the move should save the company around $130 million per year, it's clear that SNC-Lavalin will require the financial flexibility. Last quarter, the company lost an astounding $9.11 per share, with revenues falling by 12.3%. The company's mining segment took a $346 million loss on a single project, while its oil and gas segment had negative EBIT of $23 million driven by a $47 million charge stemming from a court battle.

Not everyone is pessimistic about the future, however. An analyst for **Royal Bank of Canada** recently wrote that there "remains lots of challenges ahead for SNC, but none of which we would view as insurmountable and more than reflected in the current share price." Are shares really a value following the latest dividend cut and price drop?

Short-term risks balance a tricky industry

Much of the company's horrendous fourth-quarter results were the result of one-time items. If you strip these singular events out, the company lost just $1.31 per share — not great, but certainly better than the GAAP loss of $9.11 per share.

If SNC-Lavalin can move past these challenges, conditions could improve quickly. For example, its oil and gas segment still has a backlog of $1.5 billion, while its infrastructure business has an impressive backlog of $8.3 billion. Revenues for its infrastructure segment actually increased by 22% last quarter.

Demand remains strong, but it's execution that will matter. Can SNC-Lavalin return to its long-term tendency to deliver on projects profitably? History is on its side, but in this industry, cost overruns can be fatal.

At least the current pain is clearly priced in. As recent quarters roll off, SNC-Lavalin stock has a chance to snap back quickly, just as long as there are no additional missteps waiting to be revealed.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/08/25
Date Created
2019/02/28
Author
rvanzo