



Is Now the Time to Scoop Up SNC-Lavalin (TSX:SNC) Shares on the Cheap?

Description

It's nearly April, and the **SNC-Lavalin** (TSX:SNC) scandal is still raging on. After months of media scrutiny and cabinet drama, Justin Trudeau's government is in serious hot water over the [now infamous bribery case](#).

So far this year, SNC-Lavalin stock is down 22%, while in the same period, the TSX has risen about 14%. It's clear that market sentiment is turning against this company. The question is this: is it time to buy the dip or time to avoid SNC-Lavalin stock altogether?

To answer that question, we need to look at how the scandal is playing out for SNC-Lavalin so far.

SNC-Lavalin charges

On February 19, the RCMP filed a number of charges against SNC-Lavalin. If successful, they could result in the company being barred from bidding on federal contracts for 10 years. That's a serious penalty.

According to recent reports, one third of SNC-Lavalin's revenue comes from within Canada, and much of that comes from federal projects. Not being able to bid on Canadian projects could therefore hurt the company's bottom line. Any fines or financial penalties resulting from the case would be an additional kick in the teeth.

The big question is whether the company actually gets in any trouble. As a recent CBC story points out, the RCMP has been investigating SNC-Lavalin for years, and so far, not a single charge has stuck.

Although the current scandal has undoubtedly harmed SNC-Lavalin's reputation and empowered its competitors to play the "clean" card, it's not clear whether the company will ever face a true legal penalty.

Fundamentals

That said, SNC-Lavalin's fundamentals aren't in great shape right now. In its most recent quarter, the company posted a net loss of \$1.3 billion, down from a \$380 million profit in the same quarter a year before.

The loss was mainly attributed to a \$1.2 billion goodwill impairment charge in its oil & gas business, as the company reduced its estimated goodwill due to unpredictable commodity prices and [deteriorating intergovernmental relations with Saudi Arabia](#). On the bright side, the company's outlook was positive, aiming for \$2-\$2.50 in diluted EPS for 2019.

Could the scandal hurt the stock?

Now for the big question:

Will the ongoing scandal hurt SNC-Lavalin stock enough to make it a sell?

So far, it looks like the scandal has already sent the stock lower, as most of this year's losses occurred *before* the quarterly report that revealed the massive \$1.3 billion loss. Whether the sell-off was just short-sighted market sentiment or something with long-term implications remains to be seen.

Ultimately it depends on whether any of the RCMP's charges against the company stick. If they do, then that 10-year moratorium on bidding will almost certainly hurt SNC-Lavalin's long-term stock performance.

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Date

2025/08/26

Date Created

2019/03/20

Author

andrewbutton

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