



How Justin Trudeau Is Destroying This Canadian Stock

Description

In 2018, shares of **SNC-Lavalin Group Inc** (TSX:SNC) dropped from \$60 to \$45. Internal business troubles were completely to blame.

Then, on January 25, the stock dropped nearly 30% in a single trading session. This time, the pressures were far greater than weak fundamentals. Justin Trudeau, it turns out, may be to blame.

Proven history of success

Founded in 1911, SNC-Lavalin has grown to become an engineering and construction powerhouse. From renewable energy and highways to oil projects and mining facilities, SNC-Lavalin can design and build infrastructure for nearly any purpose.

Diversified revenue streams offset some of the industry's cyclical nature, but there's no doubt that the company needs a growing economy to succeed.

Still, its long-term track record is solid. As I [wrote](#) in February, "Since 1995, shares are up roughly 1,300%, outpacing globally renowned stocks like **Mcdonald's Corp** and **American Express Company**."

With an impressive multi-decade history of success, is the recent dip a buying opportunity?

Not so fast

On the surface, this looks like a chance to scoop up beaten-down shares of a company operating in a cyclical industry. Bottom-of-the-cycle buying is always scary, but it's a great way to make money if you have the stomach for it.

In February, SNC-Lavalin cut its dividend for the first time in more than 20 years, from \$0.287 per share to \$0.10. The previous quarter, the company booked a horrendous \$9.31 loss per share, so

shoring up its balance sheet was a must. With the dividend cut, the company will save around \$130 million per year.

The daunting quarterly loss looks to be one of the inevitable moments for a cyclical business. Specifically, SNC-Lavalin was forced to take a \$350 million loss on one of its mining projects. While there were slight difficulties in other parts of the business, this one misstep contributed nearly all of the quarterly loss.

Moving forward, it seemed that the company would be able to shake off the headwinds after a few quarters – then Justin Trudeau entered the picture.

Introducing new uncertainties

In March, the *Toronto Sun* published a story covering the latest news in the Trudeau and SNC-Lavalin scandal.

According to the *Sun*, Trudeau “led a government-wide campaign—involving his highest-ranking officials and advisors—to politically interfere in SNC-Lavalin’s criminal prosecution on corruption charges.” His goal was to absolve SNC-Lavalin of charges in order to reduce political blow back.

Once the alleged corruption was made public, all bets were off.

There’s no doubt that the company’s stock is trading at a discount to its intrinsic value. Internal operating issues should roll off in just a few quarters. Over time, the dividend should return to its historical levels. The Trudeau allegations, however, add extreme uncertainty to the timing and probability of those events.

Currently, a bet on SNC-Lavalin is a wager on whether the company can exit the political scandal unscathed. With no reliable data to assess the downside potential, this stock is one to avoid, even if there is theoretical upside.

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Date

2025/07/06

Date Created

2019/03/22

Author

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