



## After Big News, Is SNC-Lavalin (TSX:SNC) a Buy Today?

### Description

To put it bluntly, 2019 hasn't been a good year for construction and engineering giant **SNC Lavalin Inc.** (TSX:SNC).

You've heard about the scandal involving the company, Prime Minister Justin Trudeau, ex-Justice Minister Jody Wilson-Raybould, and some explosive allegations, of course. This isn't just an entertaining political sideshow; if the company is found to be guilty of any wrongdoing, it could result in a 10-year ban bidding on government projects. Even today, it seems unlikely that any Canadian government is going to even consider SNC for a giant project — not until all of this goes away.

The company's recent results have done little to raise confidence, either. Two important divisions had a lackluster 2018, with both the Mining and Metallurgy and Oil and Gas segments reporting net losses for the year. The company also took a large goodwill write-off and slashed its quarterly dividend to \$0.10 per share.

One lone piece of good news buried in SNC's latest quarterly report was the continued strong performance of Highway 407, a toll road leading through the heart of the Greater Toronto Area. SNC owns a 16.67% stake in the road and had previously announced its intention to sell a portion of that to institutional investors. Analysts estimated the total stake was worth approximately \$5 billion, or close to \$30 per SNC share.

Last week the company finally came to an agreement, selling a 10.01% portion of the road for up to \$3.25 billion to pension giant OMERS. SNC will receive \$3 billion in the next couple of months with the ability to earn up to \$250 million more if the asset hits certain performance standards. This values the whole road at \$32.5 billion today and SNC's whole stake at \$5.4 billion. Analysts estimated the toll road [was worth approximately \\$5 billion](#) before this deal was announced.

This means that after the deal closes, SNC will have some \$3 billion in cash, a remaining stake in Highway 407 worth \$2.16 billion, and a smattering of other assets. The stock has a market cap of \$6 billion today. Essentially, investors are getting the entire engineering and construction business for free, a division that generated more than \$350 million in profits as recently as 2017.

## Is today a good buying opportunity?

On the surface, it looks like an excellent time to buy SNC-Lavalin shares. Historically, each time shares hit the low \$30 mark they rebound sharply. And you can't deny the cheap valuation.

SNC has diversified itself to be a global powerhouse; it tackles projects worldwide. Even if the company was found guilty of bribery charges and couldn't do business with the Government of Canada, it could still survive on its global business.

In the engineering and construction business. Certain projects just don't go as planned. Long-term investors can swoop in and hold shares until both underlying results improve and the company's legal problems go away.

Ultimately however, a position in SNC comes down to what will happen with this latest scandal. The company could still negotiate a settlement with prosecutors, allowing it to pay a fine and avoid any disruption in bidding for government construction projects, or the feds could use this as an opportunity to show that they're tough on corruption.

If the latter happens, who knows how bad it could get for SNC? It could ultimately force the company to go bankrupt, although I'll be the first to admit that that's not very likely. Still, nobody knows how bad the legal process could get.

## The bottom line

I view SNC-Lavalin as essentially a coin flip today. If you flip heads and this scandal goes away, the stock could double in the next five years, but if the flip lands tails and SNC is forced to go through the legal system, who knows? Even the unlikely scenario of bankruptcy is on the table.

The most likely outcome is that the stock will recover and shares will appreciate nicely over the next few years. But for my portfolio, it's just not worth the risk.

### CATEGORY

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2. Investing

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