Read How SNC-Lavalin's (TSX:SNC) CEO Explained its 50% Stock Price Collapse

Description

SNC-Lavalin Group (TSX:SNC) has had a tough run.

Last June, shares topped $60 apiece. Today, they're under $30 — the same range shares were trading at in 2006.

On the company's latest quarterly conference call, CEO Neil Bruce had to answer for the underperformance. Depending on the reasoning, SNC-Lavalin stock could be a bargain.

Here's what he said.

It's been a tough journey

SNC-Lavalin's troubles came to light last year when the company posted a net loss of $9.11 per share. Many one-time items were to blame, such as a $346 million charge on a single mining project that went awry.

Even after stripping these one-time events out, the company still lost $1.31 per share.

Shortly after, Standard & Poor's cut the company's credit rating to BBB-, the lowest investment-grade rating before hitting "junk" status. On SNC-Lavalin's conference call, management touted that they were "able to maintain our investment grade ratings as confirmed by both S&P and DBRS," failing to mention the downgrade.

Standard & Poor's cited "reduced prospects for earnings and cash flow, and heightened risk from a global slowdown and potential fallout from corruption charges in Canada."

That last item, corruption charges in Canada, has been a major overhang on the stock. Not surprisingly, these issues were barely discussed on management's call with investors.

The company is battling fraud accusations that oddly involve Justin Trudeau. Eventually, this scandal could result in a decade-long ban on federal contracts.

In addition to these political pressures, SNC-Lavalin recently revealed that it failed to reach a dispute agreement on a mining project in Latin America, forcing it to cut its annual profit guidance by 40%. Management also reiterated that it's seeing a slowdown in Middle East contracts given ongoing political tensions between Saudi Arabia and Canada.

CEO Neil Bruce put on a brave face during the latest conference call, but his main priority at this stage is clearly to keep the company afloat. "2019 will be a year of further focus on strengthening the company's balance sheet," he said.

Catch this falling knife?

SNC-Lavalin used to be a reliable and consistent stock.

Before the current issues began, it had been paying a steady dividend since 1992. On February 22, SNC-Lavalin was forced to slash its dividend for the first time in nearly 30 years.

Many brave investors are circling the carnage, but there's simply too many factors to make an informed purchase.

If the company simply faced operational issues, it would be fairly easy to quantify the odds of conditions returning to business as usual. All construction and engineering firms take big losses from time to time, typically from cost overruns.

Even bigger competitors like **General Electric** are known for taking multi-billion-dollar losses from time to time.

The company's most worrisome troubles aren't operational, however, especially considering SNC-Lavalin has been securing new contracts in recent months. Political problems, the company's biggest risk factor, are incredibly hard to predict.

If SNC-Lavalin is dealt a 10-year ban on federal projects, has difficulty securing projects abroad to political skirmishes, and potentially receives a fine for some of its previous government work, all bets are off the table. The company got some relief from debt holders recently by shifting some of its covenants, but a true liquidity event is still in the cards.

Investing in SNC-Lavalin at this point appears to be a pure gamble. If the political pressures pass and the stock price is still depressed, only then would it be reasonable to consider making a purchase.

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