



Is SNC-Lavalin (TSX:SNC) the Best Value Play on the TSX Today?

Description

Finding value in the **S&P/TSX Composite Index** (TSX:^OSPTX) today is increasingly difficult as the market continues to soar higher, rallying 13.5% year-to-date and continuing to hover near all-time highs.

Sometimes it seems that the only viable [value plays](#) that exist are those in the [oil and gas sector](#). To be honest, those stocks are not for everyone, as they are inextricably tied to oil and gas prices.

Enter **SNC-Lavalin Group Inc.** (TSX:SNC), a stock that has been killed (down 56% since January 2018) as it has been surrounded by corruption, bribes, and poor business practices all around.

But looking deeper, can we find value in this embattled engineering and construction firm?

I believe so.

Resignation of CEO

As part of the company's attempt to reset, CEO Neil Bruce will be retiring with interim CEO Ian Edwards tasked with undertaking a "...review of the strategic direction of the company" — this despite the fact that the corruption took place well before Neil Bruce was at the helm of the company.

While the fraud and corruption trial is set to begin in late 2019 or 2020 and the whole process may take many years to reach conclusion, the political storm related to this case has died down. For SNC, it can look forward to conducting its business and gaining the acceptance of investors and the market once again.

Restructuring

Another part of the company's attempt to surface the true value of the stock is the restructuring they have undertaken. A more narrow focus will lead SNC to exit 15 countries where they are not profitable

along with a greater concentration on core geographies that include Canada, the U.S., the U.K., the Middle East, Hong Kong, and Australia.

The company will report on four operating segments, down from seven: engineering, design, and project management (E&C), with projects mainly in transportation (including rail, mass transit, and roads), infrastructure, aerospace defence and security, and technology.

In the first quarter, revenue in this segment increased 12%, while first-quarter revenue was flat versus last year.

The sale of 10% of the company's stake in Highway 407 asset significantly improves the balance sheet and provides additional liquidity.

Valuation

If we isolate the E&C business, which represents 43% of SNC's total revenue, we can see that SNC has plenty of long-term growth drivers. Infrastructure is old in North America and needs replacing and improvements. In addition, a rapidly changing world will mean that increasingly more work will need to be done on newer infrastructure to support renewables, technology, and nuclear power.

The E&C business trades at an enterprise value to EBITDA multiple of well below four times compared to its comparable group, which trades well over five times, and in the case of the global firms, above 10 times.

Today, the stock is rallying 6% at the time of writing, as CEO Neil Bruce announced his retirement in what seems to me to be a case in which the market is just looking for a reason to bid up this stock, knowing full well that the value that exists in the company's underlying businesses, beyond the noise.

Assuming that the future will be one where the corruption charges fade into the background, SNC stock is one of the best value plays out there today.

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