



Why SNC-Lavalin (TSX:SNC) Stock Fell 17% in May

Description

You would have to have been on a desert island the past few months not to know Quebec-based infrastructure and project management company **SNC-Lavalin** (TSX:SNC) hasn't had an easy time in 2019.

Down 43.0% year to date through June 13, the company's 17% decline in May happened for two particular reasons.

First, in mid-May, the company terminated its agreement to sell 10% of the 407 toll road in the Greater Toronto Area to the Ontario Municipal Employees Retirement System (OMERS). SNC cancelled the \$3.25 billion deal because the Canada Pension Plan Investment Board, owners of 40% of the 407, exercised its right to match the offer.

As a result of the change in buyer, SNC would be required to pay OMERS a break fee of \$81 million. To make matters worse, Ferrovial SA or Cintra, who owns 43% of the toll road, has also said it has a right to match OMERS offer and has filed a lawsuit in Ontario to recognize this right.

SNC plans to use the proceeds of the sale to pay down debt. Should the transaction not close as expected in late June, it would put additional pressure on the company's management to demonstrate they are capable of delivering results for shareholders.

On top of the problems associated with selling a 10% stake in the 407, SNC learned at the end of May that there is enough evidence to stand trial for fraud and corruption charges related to alleged activities with Libyan officials between 2001 and 2011.

If convicted of these charges, SNC could face a 10-year ban on bidding for federal projects. In 2017, almost one-third of the company's annual revenues of \$9.3 billion was generated from federal projects.

Even if a conviction doesn't happen, the mere allegations could hurt its reputation around the world, knocking its stock for further losses.

To top things off, and this doesn't have anything to do with SNC's performance in May, CEO Neil

Bruce announced his retirement June 11, to be replaced by COO Ian Edwards on an interim basis.

All of this instability won't be good for SNC stock.

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