



## The Top Infrastructure Stock for Your TFSA Today

### Description

Large-scale infrastructure development is one of those evergreen areas that is immune to systemic economic shocks. History has shown that during times of economic uncertainty, such as the Great Depression of 1929 and the Great Recession of 2008, governments have doubled down on big-ticket infrastructure spending to sustain jobs and cycle the economy while introducing fiscal and monetary policies to make capital investments more attractive.

With rising protectionism and a looming recession, there is probably no safer bet than investing in core industries such as engineering and construction. One of the best-known EPDM (engineering, procurement, design, management) companies that is currently trading at ridiculously low valuations is **SNC-Lavalin** (TSX:SNC).

### Strength and opportunities

Headquartered in Montreal, Canada, SNC-Lavalin is a fully integrated professional services and project management company providing consulting, design, engineering, construction, operation, and maintenance services worldwide.

With a presence in over 50 countries, SNC-Lavalin has a well-diversified revenue stream and operates in several industry segments across multiple geographies with varying business cycles. The industry segments that the company operates in, along with the corresponding revenue base, are listed as follows: oil and gas (25%), infrastructure (22%), nuclear (9%), mining and metallurgy (5%), clean power (4%), EDPM (32%), thermal (1%) and capital (2%).

Some of key projects that SNC-Lavalin is currently executing include the following: it's designing, building, operating, and maintaining the REM light-rail transit project in Montreal, Canada; it's supporting the safe operation of CANDU nuclear reactors till 2064; it's designing, building, and managing the Federal Way Link Extension in Seattle, Washington; it's developing the Al Zour refinery in Kuwait; and it's providing support to U.K. Defence Engineering Services.

As one of the very few engineering firms that can undertake complex projects of national significance,

the company is actively working to move beyond traditional engineering by integrating new technologies and digital offerings. To that end, SNC-Lavalin has expanded capabilities through acquisitions (Linxon Pvt) and forming joint ventures (CDI).

With revenue exceeding \$10 billion for FY 2018 and the revenue backlog approaching almost \$15 billion, the company is well positioned to leverage the increased infrastructure spending in years to come.

## Risks and threats

The biggest risk currently facing SNC stems from allegations of bribery involving contracts in Libya from 20 years ago. The company unsuccessfully tried to enter a deferred prosecution agreement when it got embroiled in national politics.

Being an election year, every action, inaction, and statement made it into the national headlines, which eroded investor confidence and is partly responsible for the drop in the equity price. Currently, SNC-Lavalin is staring at a costly lawsuit on account of the allegations of bribery, which theoretically has the potential to bankrupt the company. Read [this article](#) by fellow Motley Fool writer Amy on the uncertainty surrounding SNC-Lavalin.

On the operations side, the company had to write down its mining and metallurgy investments in Chile due to sub-par performance on account of poor risk and changing management strategies. Furthermore, the oil and gas sector suffered from lower and more volatile commodity pricing, which impacted end demand.

With customers taking a conservative position with regards to capital allocation, SNC is experiencing delayed project approval and is therefore subjected to increased risk.

## The bottom line

SNC-Lavalin is one of the largest infrastructure companies in the world. Throughout its 100-year history, the company has undertaken some of the most challenging civil infrastructure projects around the world, starting from designing the power distribution network for the city of Grand-Mere in 1912 to gas facilities in the Permian shale basin in 2016.

Although political slugfest has brought the stock price to \$26 from almost \$60, it is unlikely to remain at these levels for long. SNC is one of those companies that can be categorized as too big and too important to fail. My take on the situation is that once the elections are over, the stock price is going to trend upward with potential gains of up to 50%.

If you need further encouragement, read [this article](#) on the top three reasons why you should buy SNC-Lavalin.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

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