



This Is Canada's Most Controversial Stock

Description

There is plenty of controversy in the stock market today. Oil sands stocks like **Suncor Energy** are facing intense regulatory and environmental pressures. **Facebook** was just dealt a US\$5 billion fine, and **Alphabet** may be investigated by the U.S. federal government. Meanwhile, Chinese stocks are slumping due to the country's lowest growth rate in more than a decade.

That's not the end of it. There are also smaller, lesser-known companies dealing with heavy controversy. But wherever you read the word *controversy*, you should also think *opportunity*. Troubled stocks often trade at a significant discount. When the clouds disappear, massive upside can be had for those willing to take the risk and stay patient.

One such stock trades on the Toronto Stock Exchange with a valuation of just \$4.5 billion. Last June, it was worth more than \$10 billion — then disaster hit. In a matter of months, the company was hit with a political scandal and a surprise multi-million-dollar loss. Sentiment is at an all-time low, but now may be your chance to capitalize. It won't take much for this stock to rise by 50% or even 100% in a matter of months.

Disaster is opportunity

SNC-Lavalin Group (TSX:SNC) has been a [disaster](#). In January, the stock lost more than 25% in a single day due to weak earnings. The company posted a \$9.11-per-share *loss* driven by a \$346 million hit from a single project in its mining segment. It also took a \$47 million charge related to an ongoing court battle. Even if you strip out these one-time events, SNC-Lavalin still lost around \$1.30 per share in only three months.

Hold on tight, because it gets worse. Shortly after the earnings call, Standard & Poor's slashed the company's credit rating to BBB-. That's just above junk status. The rating agency said it expected "reduced prospects for earnings and cash flow, and heightened risk from a global slowdown and potential fallout from corruption charges in Canada." Oh, right — SNC-Lavalin is also facing [corruption charges](#).

Just remember: all this bad news happened in the *past*. All we care about is what happens in the *future*. If you run some numbers, the stock now looks like a massive bargain.

How to profit

SNC-Lavalin knows how to make money. From 2013 to 2017, it made a combined \$2.6 billion in net profit. Even the \$1.2 billion loss in 2018 couldn't erase those cumulative gains. In fact, over time, SNC-Lavalin has proven capable of generating plenty of shareholder wealth. Even after the precipitous drop, long-term shareholders still experienced a 1,000% return since 1995, handily outpacing the market overall.

When bidding on fixed-price contracts, however, a great number of things can go wrong. For these deals, SNC-Lavalin is essentially locked into providing a certain service at a certain price. If the actual cost of construction is much higher, the company has no recourse and must take a big loss. That's what happened earlier this year.

Management has already taken swift steps to avoid a repeat disaster. "We will be focusing on our core geographies and are removing unprofitable revenues across 15 countries where we have sub-scale operations," CEO Neil Bruce said. "Going forward, we will be undertaking lump sum work in infrastructure and oil and gas only in our core regions where we have strong capabilities."

On a normalized basis, SNC-Lavalin is likely capable of producing \$300 million in net income. As long as the political troubles don't blow up — we have no indication otherwise — the stock should eventually trade at a reasonable multiple of earnings. Before the crash, SNC-Lavalin traded for as much as 30 times earnings.

Even assuming a conservative 20 times earnings multiple would result in a stock price of roughly \$34, representing 33% in upside. If a more aggressive 30 times earnings multiple is attained — a reasonable bet long term — the stock would be worth around \$50 per share, roughly 100% upside.

There are a lot of factors in play here, but that's what's creating the opportunity for a quick 50% or more in gains.

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