



## Wild Pick Wednesday: Is SNC-Lavalin Group (TSX:SNC) Stock a Buy?

### Description

Contrarian investors are constantly searching for [beaten-up stocks](#) that have fallen to the point where they are oversold and offer the potential for huge gains on a reversal of sentiment.

In recent days, **SNC Lavalin Group** (TSX:SNC) extended a slide that began just over a year ago. The stock traded above \$60 per share in June 2018. At the time of writing, it is down to \$21.50.

The company ran into trouble with corruption scandals connected to international deals it secured in the past. The largest is related to contracts in Libya. SNC-Lavalin was charged with fraud and corruption by the RCMP in 2015, and while the issue lingered, most investors had put the case in the rear-view mirror. Unfortunately, the company's efforts to avoid going to trial made headlines late last year and have caused headaches for the Liberal government.

Last fall, the justice minister and attorney general, Jody Wilson-Raybould, quit amid complaints she was being pressured by the Prime Minister's office to do a deal to allow SNC-Lavalin to pay a fine rather than go to court where a conviction would ban the company from bidding on Canadian contracts for up to a decade.

In January, things went from bad to worse. SNC-Lavalin warned on two occasions it would miss 2019 earnings estimates due to a drop in contracts from Saudi Arabia and problems on a major mining contract in Latin America. That led to a plunge in the stock from \$48.50 to \$36 per share. In March, **Codelco**, a copper producer that operates a mine in Chile, said it was cancelling the US\$260 million contract to build two acid plants.

In the same month, the media also reported that SNC-Lavalin had warned federal prosecutors in the fall of 2018 that if it could not avoid criminal prosecution it would be forced to move the head office from Montreal and its other corporate locations in Quebec and Ontario to the United States, cutting the Canadian-based employees by about 5,000 before eventually shutting down the Canadian operations.

The stock's decline picked up speed again through the month of May after the company reported Q1 2019 results. At the time, SNC-Lavalin said it felt confident it could still meet the reduced 2019 guidance and even put a new interim CEO in place, but investors didn't like what they saw. The stock

dipped below \$24 in June before climbing back to about \$27 on bargain hunting.

The latest blow came July 22 when SNC-Lavalin announced a major restructuring. The company is exiting the lump-sum turnkey contracts that have caused it so much grief and is considering the sale of its energy and mining segments.

SNC-Lavalin said its Q2 2019 results will miss expectations and abandoned its full-year guidance. The stock took another hit, falling from \$25.50 to below \$21.50 over the next two sessions.

## Should you buy?

Analysts have mixed views. Some put the sum of the parts of the company at a value as high as \$45 per share.

At \$21.50 the company has a market capitalization of \$3.8 billion. SNC-Lavalin had a deal in place in April to sell its stake in the 407 toll road for \$3.25 billion and finished Q1 2019 with cash and cash equivalents of more than \$600 million, so the market isn't putting any value on the rest of the company.

The project backlog sat at \$15.8 billion at the end of March. Assuming the bulk of the contracts will make money, the stock appears extremely cheap.

SNC-Lavalin still carries risk, and the stock could continue to drop. That said, it might be worthwhile to take a small [contrarian](#) position at the current price. Cheap stocks can get cheaper, but SNC-Lavalin might finally be close to a bottom.

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