



## Value Investors: Is Now the Time to Finally Buy SNC-Lavalin (TSX:SNC)?

### Description

Although the headlines surrounding **SNC-Lavalin Group** (TSX:SNC) have finally subsided, the beleaguered stock still isn't out of the woods yet.

Shares recently hit a fresh new 52-week low of just over \$20 each, a level the stock hasn't seen since 2005. We all know the scandal that rocked the company earlier this year, but some investors might not be aware that things have actually gotten worse for SNC-Lavalin since.

Not only is the company dealing with potential fallout from the bribery scandal — which might mean the company could lose the right to bid on government contracts — but it's also posting crummy results from its existing business. That is not the kind of double whammy you want to announce to the market.

But, as the old saying goes, it's darkest right before the dawn. Could SNC-Lavalin finally be turning a corner? Are investors getting an [irresistible bargain](#) today? Let's take a closer look.

### What's SNC worth, anyway?

Essentially, SNC-Lavalin is two different companies combined into one. Part of the company owns stakes in various capital projects across Canada, while the other does various engineering and construction jobs around the world.

Let's start with the capital project stakes. SNC recently sold off a 10% stake in Highway 407, a toll road going through the heart of the Greater Toronto Area, an asset many analysts consider to be the company's crown jewel, for up to \$3.25 billion. SNC will still own 6.66% of Highway 407, which is worth \$2.15 billion based on the recent sale price. This stake along with investments in more than a dozen smaller infrastructure projects are worth more than \$13 per share alone.

Then there's the engineering and construction (E&C) part of SNC, which hasn't been performing well lately. The company pre-released its second-quarter results last week, telling investors to expect negative EBITDA of approximately \$175 million from the E&C division, primarily caused by goodwill write-offs. SNC also withdrew its 2019 guidance.

Essentially, SNC-Lavalin is getting out of the lump-sum turnkey project business, which is when it agrees to build a project for a client at a fixed cost. This often works out nicely, but as anyone in construction can attest, unforeseen issues often push costs much higher than expected.

In 2018, the company made some \$780 million in operating earnings from its engineering services division, while losing \$240 million from these lump-sum turnkey projects. It's a smart move to get away from these contracts, although there are a few of them left on the books.

And remember, the sale of the Highway 407 stake will help shore up SNC's balance sheet.

Put it all together, and analysts estimate the E&C part of SNC-Lavalin is worth approximately \$25 per share. Add that to the \$13-per-share value of the capital projects ownership portfolio, and we have a company worth \$38 per share. That represents approximately 90% upside from today's price.

## The risk

If the analysis was as simple as I've laid out, SNC shares would be close to \$38 each, not \$20 each.

Investors need to remember there's still a major risk surrounding this stock. The federal government, which uses SNC often for big projects, has charged it with a crime. If convicted, SNC will be unable to bid on federal government contracts for 10 years and, critics say, will be forever tarnished.

## The bottom line

If you believe a sympathetic judge will give SNC a slap on the wrist for this scandal, the stock is a screaming buy at today's level. Management has taken smart steps to get out of weaker businesses and shore up the balance sheet, and it's obvious the general trend towards governments investing in infrastructure will continue, both in Canada and around the world.

For me, personally, the risk is just too great. But perhaps you'll feel differently. One thing is for sure — there's some serious upside potential here.

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