



## SNC-Lavalin (TSX:SNC): A Post-Election Dead Cat Bounce?

### Description

Post-Trudeau's [liberal election victory](#), the markets were relatively stable. **The S&P/TSX Composite Index** ended the day flat, down by a mere 0.16 percentage points. There were some big movers, however, one of which was **SNC-Lavalin** (TSX:SNC).

On the day following the election, SNC-Lavalin's stock jumped by 13.80% on the lack of any significant news. Why the jump? Analysts believe the company's shares soared on the hopes of a possible plea deal with the government.

This is recency bias at its finest, and could be a trap for investors. Are you familiar with the term a *dead cat bounce*? Simply put, it's the temporary recovery of a stock price after a prolonged downtrend.

Apart from cannabis stocks, SNC-Lavalin has been one of the [worst performers on the Index](#). Over the past year, it has lost 65% of its value, 58% of which has come in 2019. The company's issues run deep, as it's mired in legal battles and has been a focal point of the elections given the liberals attempted interference on its behalf.

I bring your attention to the term *temporary* in the definition of a *dead cat bounce*. Even a dead cat will bounce if it falls far and fast enough, but the bounce is short-lived. For a stock, the bounce is usually followed by the continuation of its downtrend.

### The case for an uptrend

Why are there renewed hopes for a deal? First and foremost, current Attorney General David Lametti has not shut down the possibility of an agreement with SNC-Lavalin. Prior to the election, there was no chance of this happening.

It was a political firestorm, and opposition parties attacked Trudeau relentlessly on how he dealt with the SNC affair. Several politicians called for his resignation after new details of political interference were made known.

Have the prospects changed? Outside of a Liberal majority, it was a best-case scenario for SNC-Lavalin as the Bloc Quebecois dominated the Province of Quebec. Party leader Yves-Francois Blanchet made it clear that he would only support Federal policy if there was a benefit to Quebec.

Headquartered in Montreal, the engineering giant currently employs approximately 9,000 people across Canada, of which, 700 are based at headquarters and just short of half the employees work in Quebec.

If these jobs are at risk, then it's definitely in the best interest of the Bloc Quebecois to support the Liberals in coming to a plea deal.

## The case for a dead cat bounce

On the flip side, Trudeau is now in the precarious position of leading a minority government. It will require an entirely new style and a whole new level of tact to hold government.

Coming to a deal with SNC-Lavalin and bypassing the courts is exactly what almost cost the prime minister his job. Is this the approach the government wants to take? It will need to work collaboratively with all parties moving forward, and this may very well be a non-starter.

Let's assume for a moment that a plea deal is reached; it won't matter, as the damage has already been done. The company has lost out on billions in contracts due to its tarnished reputation. It has announced that it's exiting the field of big, fixed-priced construction contracts, and refocusing its efforts on engineering services.

It has a ways to go to fix its reputation and it will be a long road ahead.

## Foolish takeaway

This is not the same company it once was, nor will it be in a year from now. There is significant change afoot, and although it is on the path to recovery, there are still many unknowns. Case in point: it is now mired in another court battle as the sale of its partial stake in the 407 is being appealed in court by Spanish multinational Ferrovial S.A.

December 18, 2019. Circle this date on the calendar as SNC is due back in court for corruption charges. Jumping into the company after a double-digit gain is pure speculation as it ignores everything that has come before it. Simply put, it's not worth the risk.

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**Date**

2025/08/20

**Date Created**

2019/10/25

**Author**

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