Forget SNC Lavalin (TSX:SNC): Consider These 2 Alternatives Instead

Description

The engineering and construction industry is a lucrative one, and investors would be wise to have exposure to the industry within their portfolios. In the wake of **SNC-Lavalin's** (TSX:SNC) much-publicized downfall, it has left a gap. Investors are holding out hope that SNC-Lavalin will escape harsh legal penalties and that the company can return to glory.

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Unfortunately, SNC-Lavalin is a shadow of its former self. It has already exited several geographical growth markets and is exiting the fixed-priced construction contracts business. It is refocusing its efforts on engineering, as it attempts to repair its once stellar reputation and put its corruption scandals in the rear-view mirror.

Despite its best efforts, it remains a long and uphill battle for the company, as it works through the legal process. In the meantime, there are two attractive options that can help investors fill the gap in their portfolio — **Aecon Group** (TSX:ARE) and **WSP Global** (TSX:WSP).

Let's start with Aecon Group, which is no stranger to the spotlight. The company was the subject of a failed takeover attempt by a Chinese state-backed company; the takeover was squashed by a Federal review. For about a year, the company was stuck in neutral, as it awaited its fate.

Now that the failed takeover bid is firmly behind it, the company is able to roam free. This is great news for investors, as the company has a stellar reputation and is expected to grow earnings by double digits (about 10%) over the next five years.

When the shackles were on, the company lost its status as a Canadian Dividend Aristocrat. Although it wasn't cut, the dividend was kept steady throughout the takeover ordeal. At the time, Aecon was in the midst of a six-year dividend-growth streak in which it raised dividends by an average of 12% annually.

This past March, the company returned to dividend growth when it announced a 16% increase to its quarterly payout. There should be an asterisk besides the company's growth streak. If it wasn't for the takeover attempt, it would have kept its streak alive.

At one point, the company was up 20% in 2019, but it has been mired in a downtrend since August. It is now flat on the year and is trading at only 13 times forward earnings. It is a perfect time to pick up this construction giant, which has crushed earnings estimates in three of the past four quarters. Aecon reports earnings this Thursday.

For its part, WSP Global is quickly becoming one of the fastest-growing professional engineering firms in the world. It has operations worldwide and has been one of the key beneficiaries of SNC-Lavalin's fall from grace. Over the past year, the company's stock price is up 23%, crushing the broader TSX index (+14%) and the industry (-7%).

Although the company has performed exceptionally well, it is still being held back. Investors are punishing the entire industry in the wake of SNC-Lavalin's scandals. According to Raymond James analyst Frederic Bastien, "It is our belief that in recent times, the misfortunes of other Canadian engineering firms have unreasonably dragged WSP's stock price."

This is great news for investors looking to take a position. The company is trading at only 19 times forward earnings, which is cheap considering the company is expected to grow earnings by 27% annually. A low P/E-to-growth (PEG) ratio (0.85) is evidence that there currently exists a disconnect between growth and valuation. Analysts agree as 10 out of 13 rate the company a "buy" or "strong buy."

Foolish takeaway

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A well-diversified portfolio should have exposure to the engineering and construction group. Investors can gamble on a company like SNC-Lavalin, or they can opt to invest in high-quality companies that have stellar reputations. Aecon Group and WSP Global have some of the highest expected growth rates in the industry and are well positioned to outperform.

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2. TSX:ATRL (SNC-Lavalin Group)
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