



The Canadian Election Could Be a Giant Win for This Embattled Stock

Description

SNC Lavalin (TSX:SNC) has been in trouble for some time now. Since 2018, shares have fallen by nearly 70%. A company that was once worth more than \$10 billion has been reduced to just \$3.5 billion. Some analysts are worried about the long-term solvency of the business.

At the start of 2018, everything was going smoothly. The stock hit an all-time high after SNC secured a \$6 billion contract to support Montreal's light rail system, out-competing rivals like **Bombardier**.

Conditions turned fairly quickly. In October, SNC stock hit a 52-week low after the federal government refused to negotiate a remediation deal related to its bribery and corruption charges from 2015. According to *Reuters*, "A deal with the government could have helped SNC defer prosecution in exchange for fines and cooperation."

On January 28, SNC stock sank another 28% — the biggest decline in nearly 30 years — after management cut its 2018 profit forecast due to a "serious problem" with a mining contract. The company also wrote down the value of its energy unit by more than \$1 billion due to domestic issues in Saudi Arabia. A few weeks later, the company slashed its profit guidance *again*, sending shares down another 6%.

In February of this year, the company cut its dividend for the first time in 27 years. By the summer, shares had fallen to a 14-year low, prompting one major shareholder to beg for an end to "the current unacceptable trend of the business."

Raymond James analyst Frederic Bastien described the situation bluntly: "Incoming CEO Ian Edwards faces the daunting task of righting the SNC ship at a time when legal uncertainty prevails, political posturing is still hurting the business, project execution risks remain high and employee morale is anything but."

Light finally appears

At some point, SNC stock will become a buy. Its balance sheet isn't terrible considering it has several

prized assets that could fetch billions in fresh capital. For decades, the company proved it could make money through infrastructure projects, and the most recent mishaps are actually an exception to its history. I expect shares to reverse direction at some point. Following the recent Canadian elections, that point could be now.

This month, the Liberal election win created a new opportunity for a plea deal to remove the fraud and corruption charges against the company. Shares soared by nearly 20% after the election results were announced.

According to the *CBC*, "Conservative Leader Andrew Scheer has lambasted Prime Minister Justin Trudeau for allegedly pressuring former attorney general Jody Wilson-Raybould to halt the criminal prosecution of SNC-Lavalin." Liberal control means that a deferred prosecution agreement can still play out to SNC's benefit. Time will tell, but the recent elections were a big win for the company.

If the regulatory and political situation is resolved amicably, it's hard to argue that shares aren't undervalued. In August, the company sold a 10.01% stake in Toronto's 407 toll road for \$3.25 billion. That should be enough to pay off a significant amount of debt and fund a massive share-repurchase program. From there, it should be business as usual for the remaining engineering and construction business, which in the past has produced EPS of more than \$3, implying shares could be priced at just five times earnings. The impending share buyback could add even more fuel to the upside.

There's still a lot of risk here, but SNC has the potential to double in price over the next 12 months if the chips fall its way. Only time will tell.

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Date

2025/08/25

Date Created

2019/10/31

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