



Will SNC-Lavalin (TSX:SNC) Stock Rebound With New CEO?

Description

On Thursday, **SNC-Lavalin** (TSX:SNC) made a comforting announcement to accompany its earnings call for the quarter ended September 30. Ian Edwards will be SNC-Lavalin Group's new president and CEO. SNC-Lavalin also reported spectacular diluted earnings per share (EPS) of \$15.70.

The earnings report must have gone well, because SNC-Lavalin stock opened at \$21 per share after closing at \$19.75 the previous day. The stock rose up to \$23.56 by mid-day — just under a 20% increase in price. By far, the biggest influence driving the stock price increase was the \$2.8 billion debt payment boosting the stock's cash balance.

Shareholders love it when companies reduce the debt load, and stock prices typically rise in response. The legally troubled but otherwise profitable SNC-Lavalin stock had fallen to a low of \$19.75 from over \$60 in June 2018.

Canada charges SNC-Lavalin with bribery

The stock price began tumbling after the Canadian government put [criminal charges against SNC-Lavalin](#) and its former vice president, Normand Morin. The company had been making bribes to global political figures since the 1990s in exchange for private gain.

After the company announced a strategic review in the summer of 2019, former CEO Neil Bruce left the company after a tenure of only four years. Bruce was unable to regain the confidence of the shareholders after the Canadian government made public the charges against the firm.

Ian Edwards replaced Bruce as the interim chief executive officer since June 2019. The company commented that Ian Edwards would be the best person to steer the company through its current legal and financial situation.

The change in leadership is unlikely to be enough to console shareholders; Edwards must show investors tangible results to turn around the stock.

Shareholders are hopeful after Q3 earnings

Engineering and construction revenue brought in only \$0.94 of the total EPS last quarter. The remaining EPS came in from the sale of 10.01% of the shares of Canadian Highway 407 ETR, which extends 108 kilometres east to west just north of Toronto.

A company controlled by the Canada Pension Plan Investment Board (CPPIB) purchased the shares for \$2.9 billion. CPPIB now manages 50.01%, and SNC-Lavalin owns 6.76% of shares on the highway.

SNC-Lavalin used the full sale price to pay down its enormous debt load. The debt load had been transferring returns away from shareholders and into the pockets of bondholders. SNC-Lavalin now has a cash balance of \$938.9 million and just \$1.2 billion of debt on its balance sheet.

Foolish takeaway

SNC-Lavalin still needs to finish court proceedings before we can officially call it a stock in rebound. Until the recent scandals become more like a distant memory, the stock price will remain dangerously volatile.

CEO Ian Edwards commented on the legal proceedings in the conference call on Thursday: "We kind of remain focused on defending ourselves through a court process. Obviously, if there were opportunities for settling this in another way, we'd be open to that. But we don't expect it."

The bottom line? Everyday Canadians will want to stay away from this stock until the smoke clears. Besides, there is no rush to make any reckless bets on a stock that only offers a dividend yield of 0.34%. There are much [better dividend stocks](#) on the TSX that carry higher returns and lower risk.

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