



Is This Scandal-Plagued Company a Good Buy After a Trudeau Victory?

Description

Does it matter to **SNC-Lavalin** (TSX:SNC) investors that Justin Trudeau won his re-election bid for Canada's prime minister? Despite losing 29 seats, the Liberal Party was able to retain power as a minority government.

Coincidentally, the shares of the construction giant popped 13.8% after Trudeau won. The talk now is whether SNC-Lavalin can extricate itself from the bribery charges and the upcoming trial.

Political issue

The Conservative Party took full advantage of Trudeau's alleged interference with regard to the bribes committed by former SNC-Lavalin officers to win contracts in Libya. Before the federal election, the prime minister-elect was found to have broken conflict of interest rules.

Last August 14, Mario Dion, Canada's ethics commissioner released a report stating that Trudeau, through his senior officials, used several means to exert pressure on Jody Wilson-Raybould. He wants then-justice minister and the attorney general to offer leniency to SNC-Lavalin and secure a deferred prosecution agreement.

The opposition party used the issue to the hilt during the campaign. Party leader Andrew Scheer promised a judicial inquiry into SNC-Lavalin's scandal. Charges were brought against the company in 2015, although the incident occurred between 2001 and 2011.

Prosecutors allege that SNC-Lavalin offered millions of dollars in bribe to the Libyan government in exchange for projects. The company is hoping that it be allowed to take part in the country's Remediation Agreement program to avoid a long corruption trial.

A guilty verdict would mean a permanent disbarment from obtaining government contracts. Trudeau took full responsibility, but insisted he did not commit any wrongdoing.

Wilson-Raybould was fired as justice minister and subsequently expelled from the Liberal Party along

with another cabinet minister.

Repercussions

Back in early January 2015, SNC-Lavalin was trading at \$44.52 at writing. The stock held on and gained momentum to start the fourth quarter of 2018 at \$52.15. From then, it was all downhill. For the first time in four years, SNC-Lavalin fell below \$20 on August 1, 2019.

As of this writing, the stock is trading at \$23.81 and is down 47.75% year to date. Publicly-listed [companies pay the price when integrity issues arise](#). The business of SNC-Lavalin suffered as a result of the scandal, reported a \$2.2 billion net loss in Q2 2019.

No-buy recommendation

Management then implemented [an 80% dividend cut](#) effective August 1, 2019, which dismayed investors. The dividend is down to 0.41%.

In the quarter ending September 30, 2019, the company reported earnings along with the appointment of Ian Edwards as interim CEO. Last week, Edwards was appointed to the post on a permanent basis.

The fresh mandate of Justin Trudeau somehow offers optimism on the fate of the beleaguered engineering firm. The Canadian prime minister still maintains his position that saving jobs at SNC-Lavalin is the priority.

Some market analysts are predicting the stock to climb by as much as 72% in the next 12 months. Taking a position on SNC-Lavalin today is a risk, however.

Management is preparing for a court battle which is expected to begin in 2020. Also, its CEO sees a slim chance of a deferred prosecution settlement.

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