



Why the SNC-Lavalin (SNC) Stock Price Rose 24.7% in December

Description

SNC-Lavalin Group Inc. (TSX:SNC) – the mere mention of the name stirs up visions of Canada at its worse. From the company's historical corrupt practices to the Liberal government controversy surrounding the case, there have certainly been good reason to place SNC-Lavalin stock in the dog house.

But in December, SNC-Lavalin was taken out of the doghouse as the company announced that the federal case against them has been settled. SNC-Lavalin stock price went on to rally an impressive 24.7% in December.

This means that a major overhang that has been keeping the stock down is gone and that investors and the company can now focus on the business of SNC-Lavalin. And what a business it is; with strong growth drivers and a recovering earnings profile, this undervalued stock has plenty of room to grow.

Federal charges are settled, effectively getting rid of a major overhang

The most significant news of December was the news that federal charges related to legacy activities of its construction subsidiary in Libya between 2001 and 2011 have been settled.

The company pled guilty to one charge of fraud, and will have to pay a fine of \$280 million as well as serve a three-year probation period. As part of the guilty plea, all other charges against SNC-Lavalin and SNC-Lavalin International have been dropped.

Cleaning up/restructuring at SNC-Lavalin

Another piece to the puzzle is the company's restructuring, which has resulted in a more narrow focus that will lead SNC to exit 15 countries where they are not profitable and concentrate on core geographies that include Canada, the U.S., the U.K., the Middle East, Hong Kong, and Australia.

Also, the company will report on four operating segments, down from seven:

- Engineering, Design, and Project Management (E&C), with projects mainly in transportation (including rail, mass transit, and roads), infrastructure, aerospace defence and security, and technology.
- Infrastructure, which provides end-to-end services to sectors including mass transit heavy rail bridges, airports, water infrastructure, and technology ventures including renewables, energy storage, intelligent networks, and cybersecurity.
- Nuclear, which offers consultancy, reactor support, field services, and technology services, to name a few.
- Resources, which includes upstream, downstream, midstream, and supporting infrastructure projects in the oil and gas sector, as well as engineering for the mining and metallurgy businesses.

SNC-Lavalin's [latest results, the third quarter of 2019, showed us the potential of the company moving forward](#). The partial sale of the Highway 407 asset, which provided SNC with a net after tax gain of \$2.16 billion, strengthened the balance sheet, backlog increased 3%, revenue increased 11% in the engineering services segment, and profitability also increased.

SNC wins a higher-margin nuclear contract

In December, SNC announced that its joint venture with Aecom and Fluor has been awarded a \$10 billion contract from the Department of Energy in Washington. This is a significant win, as it shows that SNC is executing on its plan to de-risk its business and reposition the company.

Foolish bottom line

Despite the run-up in the SNC-Lavalin stock price in December, [the stock remains undervalued](#). SNC has plenty of long-term growth drivers, which will continue to drive value as the company continues to execute.

Infrastructure in North America is old, and it needs replacing and improvements. Also, a rapidly changing world will mean increasingly more work will need to be done on newer infrastructure to support renewables, technology, and nuclear power.

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