



Contrarian Investors: This TSX Stock Can Gain 40% in the Next Year

Description

Sometimes, there are stocks that seem to be on the path to recovery before they are derailed by an external factor. **SNC-Lavalin** (TSX:SNC) is one such engineering firm that operates in four segments, including EDPM (engineering, design, and project management), infrastructure, nuclear, and resources. The company was getting back on track after a bad 2018 and 2019 before it was sandbagged by the pandemic and fell from \$33 in February 2020 to sub-\$20 in March.

Engineering delivers a decent result for the TSX stock

The company announced its results for the second quarter, and it reported a net loss of \$111.6 million. The SNCL engineering services segment (EDPM, Nuclear, and Infrastructure Services segments) posted good numbers through COVID-19.

The segment posted \$1.47 billion in second quarter of 2020, down just 2% from the same period in 2019, proving its resiliency. Nuclear and Infrastructure segments in particular had strong showings thanks to the long-term nature of its business and the fact that their services are considered essential.

Adjusted EBIT for Nuclear and Infrastructure was \$53.8 million, up from \$41.8 million in the same period of 2019, as the company took advantage of increased work on a number of operations and maintenance projects.

Total backlog for SNCL engineering services was \$11 billion at the end of Q2 2020. Total bookings for the second quarter totaled \$1.5 billion — a strong show in a pandemic.

Projects falter

SNCL's projects (Resources and Infrastructure EPC Projects segments) revenues decreased \$461.6 million in Q2 2020, down 35% from the same period last year. Projects backlog was \$3.4 billion on June 30, 2020, compared to \$3.9 billion at the end of Q1 2020. The decision to exit LSTK projects in Q2 of 2019 has caused a drop in revenues and backlog. The Resources LSTK project backlog

dropped to \$234 million from \$581 million.

The Resources segment recorded a negative EBIT of \$122.3 million in Q2 of 2020 compared to a negative EBIT of \$181.6 million in Q2 of 2019.

Outlook for 2020

The company has \$1.6 billion of cash and cash equivalents, and it has access to \$1.5 billion as credit. SNC had withdrawn its 2020 guidance when it announced its Q1 results earlier this year. However, now that it has taken stock of the economic impact of COVID-19, it has more visibility on the financial outcome for 2020.

The company expects revenue for SNCL engineering services for the second half of 2020, "should decrease by a low-to-mid single digit percentage, compared to the second half of 2019, and that its segment-adjusted EBIT as a percentage of revenue should be between 8% and 10% for the same period."

Analysts have given the stock a target price of \$33.23, up 43% from current levels. In April, [I had written about SNC](#) and warned investors to stay away from the stock until there was more clarity. The stock was trading at \$22 levels then. The Q2 results are holding strong, and the outlook for the rest of the year is also steady. I would recommend buying the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATRL (SNC-Lavalin Group)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date

2025/08/14

Date Created

2020/08/07

Author

araghunath

default watermark