

# THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

## MARKET WISDOM

*Do you own SNC Lavalin stock?*

# KEEP CALM

*Keith Richards*

I RECENTLY HAD A READER CONTACT me to ask about his SNC stock. Normally, I would tell him to phone BNN on my next MarketCall appearance (which happens to be March 19th at 12:00 noon, by the way) with the question. But I thought it's probably worthy of an article. This—given the news on the company of late.

I'll start this article off with a disclaimer that we at ValueTrend own a position in SNC. Thankfully, we have 3 main position sizes when we buy a stock. They are 3, 5, or 7 per cent. The choice of

these three weighting comes down to the risk/reward potential we foresee via our analysis. We had traded SNC twice in the past within its former trading band. Both times, we had bought at \$52 and rode it to \$58 before selling. We were aiming at making it a hat-trick via a similar trading strategy back in the second half of 2018, when we once again acquired the stock at the bottom of that trading range. Because there were some risks surrounding a fine they were facing for a contract bribe, we elected to purchase our smallest position size on this stock, which is 3 per cent. The prior two trades were executed with 5% positions.

At the time of buying, we were unaware that the current federal government, which has already been found guilty of violating federal ethics regulations in the past,

was involved so intimately with SNC. Given the other calamities the current Prime Minister's Office has been involved in, we tend to avoid stocks that could have close ties to the current government. Frankly, we don't trust them – and now, as cabinet members and key advisors to the Prime Minister resign in disgust or fear, ordinary Canadians are learning how deep the corruption of the current Canadian government really is.

### So, what do we do now?

My associate Craig Aucoin, who does the fundamental analyses around here, tells me that approximately \$30 of the current value of SNC shares lies within their ownership of the 407 toll highway in Ontario. It's a profitable investment that SNC made many years ago, and they have eager buyers – should they desire a sale. The stock currently trades near \$35. So that leaves the rest of the company trading for about \$5/ share.

Ok, so now the fundamental guys have to figure out if the global operations, which will be curtailed going forward, are worth that \$5. Being a Technical Analyst, I'm not the guy to ask that question. So, I thought I'd get a quote from Craig on the subject: "Significant risk still remains with the engineering portion of the company. If SNC is found guilty and are banned from future business projects in this country, the effects would be devastating. However, if the court case



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projects more positively, the stock might be looked back on as one of the better bargains out there. Only time will tell.”

In other words, it’s too early to make any fundamental predictions on this stock’s future.

Technically, the stock broke that \$52, then \$44 support line with vigor recently. Right now, it’s hard to say if the stock will rally back to first support (now resistance) at \$44. It’s hanging out at a support zone last seen in 2015 – which resides in the low \$30’s. Will the stock rally back to \$44 or plunge into the abys? I can’t offer too much guidance on the stock, other than to say I still hold it. I must

admit that I am playing this one by ear – something I prefer not to do under most circumstances, given my structured approach to trading. I’ll look for an opportunity to sell, but I do think that the wait might be worth it, given the floor of its \$30/share 407 highway value built into the stock. It may rally a bit at some point before the court case results are concluded as rumors begin to emerge during the proceedings. Or not. After all, there is no sure way of predicting the outcome of that case. Meanwhile, the best path may be to wait and see what happens. ▼

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*be contacted at krichards@value-trend.ca. He may hold positions in the securities mentioned. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only. It may also contain projections or other “forward-looking statements.” There is significant risk that forward looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.*