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SNC Scandal Seen Spurring Purge by CEO Card

By Frederic Tomesco on October 01, 2012

Robert Card is set to spend his first day at the helm of SNC-Lavalin Group Inc. (SNC) meeting with investors about the payments scandal that spawned criminal probes, chopped market value by 22 percent and spurred demands for management change at Canada's largest construction company.

"He has to clean house," said Stephen Jarislowsky, chief executive officer of Jarislowsky Fraser Ltd., SNC-Lavalin's biggest investor. "A lot of people who were there who allowed it to happen are still there. I wouldn't be exactly happy with somebody who signs checks and didn't have the right explanations of what accounts this was for."

Card is the first American CEO in the Montreal-based company's 101-year history. Card, 57, who doesn't speak French, will hold a conference call with analysts and the media today at 9 a.m., breaking with CEOs' usual practice of settling into a new job before talking publicly.

His hiring followed the surprise retirement of CEO Pierre Duhaime on March 26, four weeks after SNC-Lavalin said it was investigating inaccurate payment documentation in its construction unit. Swiss authorities have arrested a former executive vice president, and the case has erased about C\$1.6 billion (\$1.63 billion) from the company's market value.

"It's not that uncommon for a new CEO to want to have a conference call to put his mark on the company, but I haven't seen a whole lot of CEOs come in under these conditions," said Trevor Johnson, a National Bank Financial analyst in Toronto. "Investors aren't expecting him to fix this thing within a quarter or two."

Agent Payments

Swiss officials and the Royal Canadian Mounted Police have investigations under way. An SNC-Lavalin inquiry conducted by law firm Stikeman Elliott LLP found about \$56 million in improperly booked payments in 2010 and 2011 to agents hired by the company's international arm.

"We continue to be unable to comment on any investigations carried out by the authorities in an effort not to influence them," Leslie Quinton, a company spokeswoman, said Sept. 28 in an e-mail. SNC-Lavalin is cooperating fully, she said.

Two senior managers left in February before the scandal came to light: Riadh Ben Aissa, the ex-executive who was arrested by Swiss officials and who oversaw SNC-Lavalin's business in Libya, and Stephane Roy, a vice president controller.

'Black Mark'

SNC-Lavalin's board earned "a black mark" for having the case unfold on its watch, Jarislowsky said in an April interview. Directors went outside the company to recruit Card, who worked as the international chief at the closely held U.S. engineering firm CH2M Hill Cos. and was undersecretary in the U.S. Energy Department from 2001 to 2004.

"I just want better management," Jarislowsky said last week in a telephone interview. His firm's 21.7 million shares of SNC-Lavalin as of Dec. 31 were 14.4 percent of the total outstanding.

Card will have to "clean up" SNC-Lavalin's corporate culture, said Johnson, who has a sector perform rating on the shares.

"People will be looking toward his ethics, and whether this is a guy they can really believe in," Johnson said. "One of the reasons SNC has had so much trouble is that they haven't had the controls in place the last little while. He will really need to articulate that this is no longer the case."

Shares, Bonds

SNC-Lavalin fell 0.9 percent to \$C37.95 in Toronto on Sept. 28, extending its decline for the year to 26 percent. That compares with a 5.8 percent gain for the 21-company S&P/TSX Industrials sub-index.

The company's bonds have underperformed a Bank of America Merrill Lynch index of BBB-rated non-financial Canadian debt since Feb. 27, the day before SNC-Lavalin disclosed the payments probe.

Yields on SNC-Lavalin bonds relative to Canadian government debt widened by 37 basis points to an average of 216 basis points as of Sept. 28, while average spreads on the index narrowed by 12 basis points to 185. SNC-Lavalin's debt rose 0.56 percent in September, trailing the index's 1.1 percent gain, the data show.

The swoon in the stock may create an opening for an activist investor to swoop in as William Ackman did at Canadian Pacific Railway Ltd. (CP), said Maxim Sytchev, an analyst at AltaCorp Capital in Toronto. Ackman's Pershing Square Capital Management LP won a proxy fight in May to install a new CEO.

'Activist Front'

“All these negative issues are creating an overhang,” Sytchev said in a telephone interview. “If the challenges on the engineering and construction side continue, then the probability that something could happen on the activist front increases dramatically.”

On Sept. 18, investigators from Quebec’s anti-corruption squad searched the offices of the McGill University Health Centre as part of a construction-contract inquiry. SNC-Lavalin, which won the C\$1.6 billion contract to build the facility two years ago, owns a 60 percent equity stake.