

SNC Lavalin, dogged by old projects, misses in Q2

By By Solarina Ho | Reuters – Fri, 8 Aug, 2014 10:23 AM EDT

TORONTO (Reuters) - SNC-Lavalin Group Inc , Canada's largest engineering and construction firm, on Friday reported a return to profit in the second quarter that fell sharply below analysts' expectations as problematic, old projects started by previous management continued to hurt the bottom line.

The Montreal-based company has been trying to move past a far-reaching scandal involving allegations of fraud and bribery, and to deal with a remaining backlog of more than C\$600 million in challenging projects.

Shares, which had climbed about 20 percent since the start of the year, fell 3.1 percent to C\$56.83 on the Toronto Stock Exchange.

The company announced during the quarter that it will buy resource-sector engineering group Kentz Corp for \$2 billion to help accelerate its turnaround plan and expand its high-growth and high-margin operations in the oil and gas industry.

Net income was C\$32.1 million, or 21 Canadian cents a share, compared with a loss of C\$37.5 million, or 25 Canadian cents a share, a year earlier when it took sizable charges related to older projects.

The firm said overall revenue was C\$1.7 billion, lower than the C\$1.9 billion a year ago.

Analysts had been expecting earnings of 63 Canadian cents a share and revenue of C\$1.8 billion, according to Thomson Reuters I/B/E/S.

Net loss from the company's Engineering & Construction, and Operations & Maintenance units narrowed to C\$47.9 million during the quarter. Last year, it reported a net loss of C\$104.7 million for those units.

Profitability in the Oil & Gas, and Infrastructure & Construction sub-segments continued to be dragged down by old projects.

"All-in, not a lot of silver lining in the short term; that being said, the problematic projects ... are becoming a smaller portion of company's business by the day," said Dundee Securities

analyst Maxim Sytchev. He noted that SNC has cut the backlog of old projects by 17 percent since the first quarter.

"One step forward, two steps back is what we are still experiencing with the core business," Sytchev said.

The segment was also hit by an unfavorable C\$20.4 million foreign exchange hedge, as well as costs related to the Kentz acquisition.

Net income from its infrastructure concession investments business, which includes managing the 407 express toll highway that parallels the northern boundary of Toronto, Canada's largest city, increased to C\$78.9 million, higher than the C\$67 million it reported last year.

SNC, which had indicated that it was looking to sell the 407 asset sooner than later, said a higher net income from AltaLink and a higher dividend from the 407, helped.

It is selling the AltaLink asset to a unit of Berkshire Hathaway in a deal that is expected to close at the end of the year.

Despite the challenges, SNC maintained its 2014 earnings per share guidance of between C\$2.80 and C\$3.05, excluding any impact from asset sales.