

# SNC-Lavalin – what the hell are you up to...?

Angus Leslie Melville

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What gives at SNC-Lavalin these days? The scandal-prone, Canada-based construction giant is rarely out of the news – usually for all the wrong reasons – leaving the market wondering just how far a company can fall from grace... because this one's breaking world records.

Now, it would be gratuitous to dwell over-long on SNC-Lavalin's ordeals over the last two decades (none of us bear too close an inspection over that sort of timeline!), but it's fair to briefly recap before taking a look at what's happening now.

The wheels started to display a distinct wobble at the start of the century with allegations that SNC had directed some \$48 million in bribes to Libyan government officials from 2001-11, standing accused of defrauding the Libyan people by around \$130 million during that time.

You'd think that'd be enough for any one company, but no... the horror stories kept piling up.

Uncomfortably close to home, there is the C\$3.17 billion [McGill University Health Centre](#) (MUHC) that has been embroiled in allegations over money laundering and a C\$22 million bribe that was allegedly paid to Dr Arthur Porter to win SNC the DBM contract.

Then in 2013, the World Bank Group announced the debarment of SNC – impacting more than 100 of its affiliates – for 10 years following the company's misconduct in relation to the [Padma Multipurpose Bridge Project](#) in Bangladesh.

This debarment was agreed as part of a negotiated resolution agreement between World Bank and SNC following an investigation into allegations of bribery involving SNC and officials in Bangladesh.

The can of worms was well-and-truly open and as investigations progressed, the World Bank cried foul on misconduct by SNC in relation to a World Bank-financed rural electrification and transmission project in Cambodia.

All relevant staff were exited from the company many years ago – some of them to a new home behind bars – and numerous fines have been paid.

Meanwhile – back in the home country – the threat continues to hang over SNC that it will be barred from bidding on federal contracts for 10 years should it be found guilty of corruption... though that looks fairly unlikely, if the administration has anything to do with it.

This process has not been without its scandals on the political front. Jody Wilson-Raybould resigned after allegedly being “influenced” by the prime minister's office over the SNC prosecution. That was an unpleasant affair that leaves a bad taste in the mouth and a stain on Justin Trudeau's reputation... which ain't as shiny in the homeland as it is on the international scene.

Elsewhere – in other countries where SNC corruption took place, governments have largely agreed settlements, but its home government keeps the case open, refusing to agree a deferred prosecution agreement (out-of-court settlement) which hangs over its head to this day.

All these woes have had the inevitable impact on SNC-Lavalin's share value. Last month it was reported that SNC shares had lost nearly 60% of their value in the past year. This week, the developer announced it was slashing quarterly dividends by 80% as it mulled the future in light of a C\$2.12 billion net loss in Q2.

## View from the side lines...

SNC-Lavalin's in a right old mess, no two ways about it. Being debarred by World Bank rules it out for most emerging market work, while a question mark hangs over its future ability to bid on federal projects in its home market.

To add insult to injury, political wrangling between Canada and Saudi Arabia spells trouble for Canadian companies in the kingdom... which

comes as a massive blow to SNC which has two major clients in the nation and around 9,000 staff on the ground.

Furthermore, SNC announced last week that it was exiting lump-sum turnkey contracting, reorganising its resources (O&G and mining and metallurgy) and infra sections into a separate business line. That's a massive shift and – for a company of this nature – it seems to have passed with relatively little comment... given what they do for a living!

It has withdrawn its bid for the [Valley Line West LRT](#) in Edmonton, Alberta, and is doing likewise on two other major infrastructure projects in British Columbia:

- [Broadway Subway](#)
- [Pattullo bridge contracts](#)

Tongues are also wagging about SNC [selling a 10.01% stake](#) in 407 International – the concessionaire on the 407 Express Toll Route in Toronto – to OMERS Infrastructure for an upfront payment of C\$3 billion.

According to sources uncomfortably close to SNC, this was the company's prize infra equity asset and its sale at this amount was described by one as a "throw-away price".

Added to this, there has been a lot of change at the top in SNC. The one that will be of greatest note to *IJGlobal* readers is the departure of Chantal Sorel, SNC-Lavalin Capital's long-established and highly-respected executive VP and managing director.

But Chantal's not alone, Christian Brown – SNC O&G president – exits this summer, handing over the reins to Craig Muir who is based out of the UAE and reports to Neil Bruce, president and chief exec.

### **It's hard to keep up with it all...**

There's nasty little industry secret in Canada that's bubbling under the surface – and this is not exclusive to SNC – that will impact the PPP / P3 community in the coming years on projects in Quebec (and, to be fair, it's not just Quebec).

Lifecycle money on PPP projects is being spent now to cover operating shortfalls, creating a time bomb for projects that brings to mind the French Canadian saying that when you're shovelling snow, shovel the snow forward!

The timeline for these issues – indeed, the fuse length on the time bomb – is uncertain, but it's a lot closer to being imminent (18-36 months) than the snow shoveller anticipates.

This is hugely concerning and speaks of either a lack of understanding among the operators... or, more likely, a desperate desire to please the equity holders by doing the wrong thing.

Bringing it back to SNC, we hear that it has centralised the surveillance of all its fixed-budget projects which, our sources tell us, indicates that management has serious concerns about their futures.

Talking of management, again according to sources, there is huge disagreement internally over the new chief executive – Ian Edwards – who took over as interim president and CEO on 11 June.

This is having the inevitable consequence and a lot of CVs are being dusted off and blasted around the industry.

As one source said this week: "I don't know what you're going to be writing... but you better get on with it as there might be nothing to write in a couple of months!"

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