Should Investors Hold On to These Stocks Trading at 52-Week Highs?

Description

Badger Daylighting Ltd. (TSX:BAD)

The stock got hit hard back in 2015/2016 as the price of oil collapsed, even though the company's business was never exclusively focused on the oil and gas industry. It always had, and still has, a substantial amount of business in the utilities sector, petro-chemical plants, power plants, and other large industrial facilities in North America.

More recently, the stock has risen almost 50% in the last year as investors have realized that this is a high-quality company with a diverse customer base and is not solely at the mercy of the oil and gas sector. And, of course, the energy sector has started to show signs of optimism, and while Badger's exposure to the sector has come down to just 38% recently from 50% in 2014, the opportunity for Badger in a recovering energy market is big.

The company has strong margins, generates strong ROE, has strong earnings growth potential, and is trading at a P/E of 25 times. Considering that — based on analyst consensus estimates — earnings per share (EPS) are expected to grow by roughly 50% in the coming year, this is reasonable.

Furthermore, the business is a good cash flow generator. In the third quarter of 2015, when things were difficult for the company, cash flow from operations, excluding working capital, was $20.8 million — a decline of 32% versus the same quarter in the prior year, but still generating cash flow. And, even better, we can see that free cash flow was still positive at $14.9 million versus $9 million in the prior year. Again, this is at a time when half of the company's business was experiencing rough times, and this is a testament to the quality of the company.

CCL Industries Inc. (TSX:CCL.B)

Every once in a while, as investors, we come across a high-quality company that has all of the right ingredients to make it an excellent candidate for long-term investing. CCL Industries is one such company. While the business is not an overly exciting one, its track record of financial success is.

The company has grown from revenue of $1.2 billion in 2009 to revenue of $3.9 billion in 2016 for a cumulative annual growth rate of 18%. Growth has come through acquisitions and organic growth. During this period, the stock increased from $30 to its current price of just over $290 per share.

It is deserving of a premium multiple, in my opinion. The P/E multiple currently stands at 25 times, but if we consider that the stock is trading at 21 times consensus analyst EPS estimate for 2017, that the earnings-growth rate is expected to be 17% in 2017, and that the company has beat expectations in the last four quarters, we can see that this valuation level is reasonable and it remains an attractive holding for investors.

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1. Investing

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2. TSX:CCL.B (CCL Industries)

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1. Investing

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