



Badger Daylighting Ltd. Is Underrated, But Is it Undervalued?

Description

Badger Daylighting Ltd. (TSX:BAD) is North America's largest provider of non-destructive excavating services. You probably haven't heard of the company, but it provides a necessary service for its clients. Badger's hydraulic-powered trenching machines use a vacuum and high-pressure water technology to get through solid ground to expose pipelines, utility lines, electrical lines, or any other buried infrastructure.

If you were to use traditional excavation methods to get to these lines, it would take a considerable amount of time and effort. The biggest issue is that the surrounding environment is disturbed, which is a huge problem for clients who want to maintain, upgrade, or replace its underground systems. The process of daylighting, or hydro-excavation, is an environmentally friendly way of digging to get to underground lines. Simply put, daylighting exposes underground facilities to the daylight.

We're entering an age when people are becoming more environmentally conscious. The more a company can do to lessen its environmental impact, the better. The amount of excavation is also reduced, and the process of daylighting is also typically a faster and cheaper solution to get to underground infrastructure.

Daylighting is also safer, faster, and cheaper, so companies that use daylighting for their excavations are likely to see margins improve thanks to lower operating costs. I think Badger's daylighting services offer a must-have service for petroleum and utility companies with buried infrastructure across Canada and the U.S.

How can Badger grow?

President Trump has made it clear that he wants to invest in America's infrastructure in his efforts to "make America great again." According to the American Society of Civil Engineers, it's expected that there will be approximately \$3.6 trillion worth of U.S. infrastructure investments needed by 2020. All of the aging underground infrastructures will need excavators, and that's a ton of new business for excavators like Badger.

What about valuation?

Badger is a great business with some impressive long-term catalysts, but the stock looks expensive at current levels, even after being a laggard over the past three years. The stock currently trades at a 41.7 price-to-earnings multiple and a 3.1 price-to-sales multiple, both of which are higher than the company's five-year historical average multiples of 21 and 2.4, respectively. The 1.22% dividend yield is also considerably lower than the company's five-year historical average yield of 1.7%.

I think Badger is an underrated gem that Canadian investors should place on their radars, but I don't think it makes sense to load up on shares right now. As we head into the latter part of 2017, we could see Badger drop to more reasonable valuations, so be patient and have cash on hand.

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