



Opportunity: Badger Daylighting Ltd. Shares Are Down Almost 20% Since Mid-April

Description

In recent history, **Badger Daylighting Ltd.** (TSX:BAD) has been negatively affected by its exposure to the oil and gas sector, which represented 50% of total revenues. But what is key about this company is that its hydrovac excavation services are in demand not only by the oil and gas industry, but also by petro-chemical plants, power plants, and other large industrial facilities in North America.

So, we should not view it as a direct play on the energy sector, although it certainly benefits from the ups and gets hurt in the downs of the energy market.

In 2016, Badger's non-oil and gas revenue increased 21%, while oil and gas revenue decreased 34%. Importantly, revenues from sectors other than oil and gas accounted for 75% of total revenue versus 45% in 2013. The stock has reacted very favourably to this fact, and the shares performed well to a point that they were looking ahead of themselves. And while, as I wrote at that time, I believe that the company deserved a premium valuation, trading at over 44 times earnings, it was beginning to look excessive.

A caveat to this would be if, in fact, the oil and gas sector recovered in any meaningful way, the company's earnings would rise very quickly and work to bring the multiple down without a meaningful decrease in the stock price.

And, as it happens, the company's shares have two things working in their favour at this point. First of all, the shares have declined almost 20% since mid-April, so the valuation has improved. Second, the oil and gas sector is, in fact, looking like it is in the midst of a nice recovery; the likes of **Pason Systems Inc.** ([TSX:PSI](#)) have reported an 80% increase in rig activity in Canada in the first quarter of 2017, and that the company is experiencing increased revenue for the first time since the downturn a few years back.

Badger Daylighting is a well-run company with a history of high margins and strong returns on equity. At this point, it represents a good, diversified play in the industrial sector as it offers services for a broad range of infrastructure-related industries.

And since the stock was hit when the energy sector was collapsing, it follows that the shares should rise as the energy sector recovers.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BDGI (Badger Infrastructure Solutions Ltd.)
2. TSX:PSI (Pason Systems Inc.)

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