



Why Badger Daylighting Ltd.'s Run May Be Over

Description

Those pesky short-sellers are at it again, and this time they're focusing their efforts on a little-known Canadian company in the excavation business: **Badger Daylighting Ltd.** (TSX:BAD).

On news that infamous short-seller Marc Cohodes has shorted this company this morning, the stock price has dropped approximately 26% as of 10:00 a.m. EDT.

The company recently reported earnings with strong revenue growth of more than 15%, accompanied by significant gross margin deterioration of 3.5% year over year (from 26.7% last year to 23.2% this year), leading the company to earn essentially the same amount of money on growing earnings.

Investors in a business such as Badger are looking for profits first. While growing market share and increasing earnings are generally a good thing for this company, the current valuation of Badger at 30 times earnings (after the recent earnings release) means the company appears to still be significantly overvalued. As of yesterday's close, the company's price-to-earnings (P/E) ratio sat above 40.

Worries about the valuation have been present for some time; however, investors in Badger have largely ignored these concerns given the company's ability to maintain decent levels of profitability with a strong growth profile. It appears after the recent earnings release and subsequent comments by Mr. Cohodes that the earnings quality and business model may need some additional looking into.

Mr. Cohodes has announced he will be releasing a website shortly to highlight many of the issues with the company, which I expect will drive a lot of traffic in the coming days and weeks. The website is slated to be www.turnoutthebadgerdaylight.com.

Bottom line

I am in no way affiliated with any of the short-sellers I mention in my articles; however, as I have said in my previous pieces, I believe it is important to [listen to a short-sellers'](#) theses on any given stock, as they provide a valuable service to the free market and investors; they offer additional information and research that may not be otherwise widely known or circulated.

I would strongly urge investors interested in adding or subtracting a position on Badger to consult with both the buy-side and sell-side analysts on this stock, analyzing the data in the most recent earnings releases with an open perspective.

It may be just the beginning of a long slide for Badger, or perhaps it's just a temporary blip on the company's record; however, I believe that given the current rich valuation of Badger (even after today's drop), there may be a significant amount of room for this company to move downward.

Stay Foolish, my friends.

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