Badger Daylighting Ltd.: Are 1st-Quarter Issues Temporary Setbacks?

Description

Badger Daylighting Ltd. (TSX:BAD) shares are being decimated, down over 20% at one point last week, as investors, like me, are left stunned and trying to figure out why.

It has been clear for a while that the shares have been richly valued, but there have been reasons to justify this valuation in the form of high returns, a strong balance sheet, and strong growth. And while the company reported first-quarter 2017 earnings that had issues, it appears that the long-term fundamentals remain good.

So, we know that the valuation on the shares is rich, and this leaves it extra vulnerable to short sellers as well as any setback (short term or long term) that the company experiences.

Here are some key takeaways from the quarter that may be useful for investors deciding what to do with these shares.

Badger is seeing a clear improvement in its oil and gas segment in the U.S. and in Canada, and although it is still very competitive in the western U.S. and Canada, as Ontario is still in a position where there are many hydrovacs in the marketplace.

This is nothing new and has been the case for many years now, but new consolidation activity in the industry has given hope that rate pressure will subside at least somewhat.

Clean Harbors Inc. (NYSE:CLH) announced an agreement to acquire Lonestar West, Inc., one of Badger's competitors with $42 million in revenue.

Management views this as a positive for industry dynamics, as Lonestar, which has been operating at a loss for a number of years, has been a big reason for the rate pressure that has gripped the hydrovac market. Management believes that Clean Harbors will keep rates at more reasonable levels.

The company saw an erosion in margins in the quarter, which was a direct result of higher wages, vehicle repair and maintenance, and higher fuel costs. While concerning, management has stated that this was temporary and that the pressure started at the beginning of the quarter.

At this point, the run rate has come down to last year's levels, as management has worked on cost cutting and passing on higher fuel charges.

In response to the short-selling activity, management has stated that this has been going on for a while now, and that they do not pay attention to it. They are focusing on managing the business; when asked if they would consider a share buyback at these levels, management responded that they can get very healthy return by investing in more hydrovac trucks, and that growing the business for the long term is what is important.

In response to increased demand, the 2017 build rate has been increased to between 100 and 160 trucks from the previous plan of 70 and 100 trucks.

Longer term, management still has a goal of doubling the U.S. business and EBITDA over the next Three to five years, as they see opportunities for more uses for the hydrovac as well as geographic expansion.

In short, I liked what I heard from Badger management on their earnings conference call.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BDGI (Badger Infrastructure Solutions Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/26
Date Created
2017/05/16
Author
karenjennifer