



Can Badger Daylighting Ltd. Dig Itself out of This Situation?

Description

Badger Daylighting Ltd. (TSX:BAD) is under attack by short-seller Marc Cohodes, who has made his bearish presentation slides available to the general public through his website www.turnoutthebadgerdaylight.com. The stock plummeted following the news that Mr. Cohodes has a short position in the stock. Is Badger a good company that's just ridiculously overvalued? Or is the business itself just plain "BAD"?

There's no question that Badger Daylighting was absurdly overvalued before Mr. Cohodes announced his short position. After falling off a cliff, the stock still looks expensive with a 28.2 price-to-earnings multiple. Badger is a simple non-destructive excavation business which has a low barrier to entry. Although the company has an intriguing growth profile, if the management team can't operate in an efficient manner, it could easily get wiped out by the competition, which is fighting to steal Badger's slice of the pie.

The management team appears to be "frustrated" by the trend of higher costs and weak margins, but if they can't make meaningful improvements over the medium term, then the company stands to miss out on what I believe is a huge opportunity to surge with a strengthening U.S. economy, which is expecting to boost infrastructure spending by a substantial amount over the next few years.

There are promising prospects for Badger, and I like the business, but without an excellent management team, even a promising business can become a long-term laggard.

While Mr. Cohodes has an impressive track record of short plays, I'm not so sure that Badger is as bad a business as he makes it out to be. If the stock were priced at a 10-15 price-to-earnings multiple, I think the stock would be an interesting play, but Mr. Cohodes points out that there are many issues that go beyond the stock being overvalued.

Beware short-sellers: This Badger bites back!

Mr. Cohodes points out that "BAD accounting" practices going on at the company, but Brian Pow, vice-president of research at Acumen Capital, stated that concerns over Badger's accounting are overblown. Mr. Pow said, "Revenue recognition — people will always challenge that, but at the end of

the day, this is a cash business and it's pretty hard to do anything with the accounting."

Badger CEO, Paul Vanderberg immediately dismissed Mr. Cohodes's thesis and claimed that short interest in Badger was nothing new. Badger CFO Jerry Schiefelbein also responded to Mr. Cohodes's attack by saying Badger is "...not just digging holes in the ground."

Badger recently released a letter to shareholders in response to Badger's plummeting stock price. In the letter, Badger re-emphasized the company's catalysts and provided insight on how it plans to accomplish its medium- and long-term goals.

Badger is a falling knife right now thanks to the short attack by Mr. Cohodes, but I do think Badger is capable of becoming great again. But for now, I'd avoid the stock for the simple reason that it's just too expensive at current levels, even if you consider the catalysts that could drive the stock higher.

Mr. Cohodes is also going to make Badger a very difficult stock to own for shareholders, since it's likely that he's going to be releasing more dirt on Badger in the months ahead. This will probably send the stock further into the abyss, so if you're thinking about catching this knife, just be patient and wait for a better opportunity.

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