



## Is Badger Daylighting Ltd. Starting to See the Light of Day?

### Description

**Badger Daylighting Ltd.** (TSX:BAD) took a hit on the chin after the infamous American short-seller Marc Cohodes released his bearish thesis on the company. The stock is now down 28% from its 52-week high after a slight rally following the sharp decline. Is this rally sustainable? Or will Mr. Cohodes continue to drag this Badger farther into the hole?

Mr. Cohodes brings up some great points in his bearish presentation, which can be seen at [www.turnoutthebadgerdaylight.com](http://www.turnoutthebadgerdaylight.com). He believes that Badger is ridiculously overvalued and that the company has no durable competitive advantage or moat that would warrant such a premium valuation.

What is Badger Daylighting anyway?

Badger Daylighting operates trucks which are equipped with non-destructive excavating machines, which use pressurized water to break through the ground without causing too much harm to the surrounding environment. In short, the company travels to locations of interest and exposes various underground assets like pipes that its clients may wish to have exposed.

### Declining fundamentals is a red flag

This hydro excavation process isn't unique to Badger; in fact, the company's fundamentals have been noticeably getting worse over the years because of declining margins and the fact that competitors are out there looking to steal Badger's lunch. The company's return on equity, return on invested capital, and gross margins have been going downhill over the past few years.

It appears that things could get even uglier as the management team scrambles to buck the trend of increasing costs and decreasing margins. Badger isn't operating in the most efficient manner right now, and if operational improvements aren't made, then the bleeding could continue and competitors will win over prospective clients. Until the management team can show that they can reverse disturbing trends, it would be risky to buy shares now, especially at a hefty 33.23 price-to-earnings multiple.

### Can Badger dig itself out of this hole?

Badger has an intriguing business model, but if the management team can't run operations in an efficient manner, a competitor will step in and do so. Donald Trump stated that he's going to invest in America's infrastructure, and it's reported that about \$3.6 trillion in U.S. infrastructure investments will be needed by the conclusion of 2020. A chunk of this investment will be to improve and upgrade underground infrastructures, and hydro excavation is one of the more environmentally friendly ways of getting under the dirt.

If Badger can reverse the trend of declining profitability, then Mr. Cohodes may have a hard time with his short position. But for now, Mr. Cohodes is right on the money, and I wouldn't touch shares at these levels until the management team can show it can improve its operations.

Mr. Cohodes will also continue to be a thorn in the side of the company for the medium to long term, and it's likely that he'll continue his attack in the coming months, which will be a major drag on the stock price. The stock has started to rally from the recent dip, but I don't think it's sustainable.

Stay smart. Stay hungry. Stay Foolish.

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1. Investing

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