Why Badger Daylighting Ltd. Tanked 7.38% on Monday

Description

Badger Daylighting Ltd. (TSX:BAD), North America's leading provider of non-destructive hydrovac excavation services, announced its third-quarter earnings results Monday morning, and its stock reacted by plummeting 7.38% in the day's trading session. The stock now sits more than 22% below its 52-week high of $36.22 reached back in April, so let's break down the quarterly results and the fundamentals of the stock to determine if now is the time to buy.

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Breaking down Badger's third-quarter performance

Here's a quick breakdown of 10 of the most notable financial statistics from Badger's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Hydrovac service revenue	$129.41 million	$103.79 million	24.7%
Total revenue	$141.29 million	$113.17 million	24.8%
Revenue per truck per month — quarterly average	$34,125	$28,062	21.6%
Adjusted EBITDA	$38.88 million	$33.52 million	16.0%
Adjusted EBITDA margin	27.5%	29.6%	(210 basis points)
Net profit	$16.19 million	$11.94 million	35.6%
Net profit per share (EPS)	$0.44	$0.32	37.5%
Cash flow from operating activities before changes in working capital adjustments per share	$1.02	$0.90	13.3%

Hydrovacs added during quarter	25	9	177.8%
Hydrovacs in operation during quarter	1,081	1,028	5.2%

Comments regarding its outlook

In the press release, Badger made comments regarding its outlook on the rest of 2017; here are two notable quotes from the release:

> "Badger anticipates that increased year-over-year activity realized in the second and third quarters will continue into the fourth quarter of 2017. The overall macro-economic environment in both Canada and the U.S. is anticipated to be supportive of ongoing infrastructure, construction, and oil and gas activity levels for the remainder of 2017."
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> "Due to the nature of construction operations, Badger does anticipate a seasonal slow-down in its northern markets due to winter weather, the exact nature and timing of this impact is variable and dependent on regional specific weather."

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Was the 7.4% sell-off warranted?

It was a solid quarter overall for Badger, which has been an ongoing theme for the company in 2017, as its revenue increased 24.9% to $366.45 million, its adjusted EBITDA increased 19% to $90.84 million, and its EPS increased 60.3% to $0.93 in the first nine months of the year compared with the year-ago period.

That being said, I do not think the sell-off on Monday was warranted, but I think it has led to an attractive entry point for long-term investors for one fundamental reason in particular: valuation. Badger's stock now trades at just 23.5 times fiscal 2017's estimated EPS of $1.19 and only 17.7 times fiscal 2018's estimated EPS of $1.58, both of which are very inexpensive given its current double-digit percentage earnings-growth rate; these multiples are also inexpensive compared with its five-year average price-to-earnings multiple of 24.9.

It's worth nothing that Badger pays a monthly dividend of $0.038 per share, representing $0.456 per share annually, which gives its stock a respectable 1.6% yield. It has also raised its annual dividend payment for two straight years, and its 15.2% hike in August has it positioned for 2018 to mark the third consecutive year with an increase.

Badger's stock is up more than 15% since I first recommended it in July 2015, but it's down more than 12% year to date and more than 22% from its 52-week high in April. I think the recent weakness represents an attractive entry point for long-term investors, so take a closer look and consider initiating a position today.

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