Attention Investors: This Stock Is on Sale and Set to Beat the Market

Description

Badger Daylighting Ltd. (TSX:BAD) reports fourth-quarter and year-end results today, and recent history suggests that it will be a good report, as fundamentals are strong for the company.

And given these strong fundamentals, I think the stock is on sale at these levels. It's very attractively valued!

In recent history, Badger has been negatively affected by its exposure to the oil and gas sector, which represented 50% of total revenues.

So, now that oil prices have blown through $60 and have surpassed $65, why have Badger's shares declined 15% year to date and 23% since January 2017?

Well, one reason I think is the stock's valuation, which was pretty excessive back a few years ago and left the company vulnerable to general market uneasiness as well as to any company-specific setbacks.

So, when Badger did have a setback in the form of lower-than-expected first-quarter results, the stock took a nosedive, and it has never really recovered. It is now back to the lows that were hit right after those disappointing results.

Here is why I think the stock is a very attractive long-term buy at these levels.

Strong revenue growth

In the latest quarter, the third quarter of 2017, Badger reported revenue growth of 24.8%, as a result of its U.S. operations, which saw a 36.2% increase in revenue. As a reminder, the U.S. represents 55% of total revenue.

The key here is that the company saw strong demand across geographies and end-use markets.

Diversification

The fact that the company's hydrovac excavation services are in demand not only by the oil and gas industry, but also petro-chemical plants, power plants, and other large industrial facilities in North America gives the company good diversification and exposure to different industries.

We should not view Badger as a direct play on the energy sector, although it certainly benefits from the ups and gets hurt in the downs of the energy market. And with the strength in oil prices this year, the company is certainly benefiting.

Strong returns

Badger Daylighting is a well-run company that has a history of high margins and strong returns on equity, and at this point, it represents a good diversified play in the industrial sector.

And while the company's EBITDA margin has been under pressure lately due to higher selling, general, and administrative expenses, coming in at 27.5% this quarter compared to 29.6% last year, management is confident that they will come back up to the 28-29% level.

The company has also consistently generated strong free cash flows and had a free cash flow margin of over 10% in 2016. This is reflective of a very strong business.

Let's watch for the company's results after market close today.

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karenjennifer