This Unloved Canadian Stock Is About to See the Light of Day

Description

Badger Daylighting Ltd. (TSX:BAD) is a Canadian company that's a great way to play the continued rise in infrastructure spending. The company provides non-destructive hydrovac excavation services to its clients who need holes dug to expose underground infrastructure to the light of day, hence the term "daylighting."

If underground pipes need to be laid down or maintained, Badger can provide its excavation services, which leave a minimal impact on the surrounding environment versus traditional excavation methods. Badger manufactures and operates its fleet of hydrovac-equipped trucks that mainly serve the utility and municipality and oil and gas industries.

The company was accused of misleading accounting practices by the infamous short seller Marc Cohodes, who has "attacked" many other Canadian companies in the past to profit from a stock's decline. While Badger may have been "aggressive" with its revenue-recognition methods, there has been no firm evidence of illicit activities that Cohodes alleges in his short reports.

Having a closer look into the financial statements, it's not hard to see that Badger has a substantial amount of accrued revenues (sales recognized before billing a customer) versus your average firm.

As a result, the company has consistently accumulated a substantial amount of accounts receivables on its balance sheet, accounting for around 22% of assets last year, which should have raised red flags for investors. Such high accounts receivables imply incredibly relaxed credit standards, so Badger may have taken on less-creditworthy clients within the struggling oil and gas industries and thus may have been more susceptible to provide services to less-solvent clients who may not be able to cough up cash down the road.

While Cohodes did shed light on Badger's aggressive revenue-recognition methods, the company didn't actually do anything fraudulent, and Cohodes's allegations were eventually deemed as "baseless" by third-party firms that gave the green light on Badger's financial statements.

Sure, the company didn't adopt the most conservative accounting methods, and revenue growth may have been harder to gauge, but in the end, Badger remained compliant with the IFRS and is thus not as uninvestable as it was when Cohodes's allegations were the talk of the town.

While Badger's apparent low-credit standards for prospective clients may be seen as a concern, it's also important to remember that management has factored in estimations for uncollectible accrued revenues, so no sudden drops in operating cash flow should be expected.

As the U.S. economy heats up, more infrastructure spending will be necessary, and that means more work for Badger and other hydrovac excavators. Moreover, rebounding commodity prices is a huge positive for the solvency of Badger's oil and gas clientele, which account for a big chunk of its customer base.

In addition, insiders have been loading up on shares of Badger with approximately $934,000 worth of insider buying from the company's officers and directors over the past year.

I think that's a good indication that Badger is at a turning point and is about to move on and dig itself out of the hole that Cohodes unfairly kicked it in a few years ago.

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