



Up Almost 10% After Its Earnings Release, This Undervalued Growth Stock Is Just Beginning Its Ascent

Description

Badger Daylighting Ltd. (TSX:BAD) is a [growth stock](#) that is in the business of excavation, or digging.

More specifically, non-destructive excavation, with its own Badger Hydrovac, which “uses high-pressure water and vacuum systems mounted on a truck chassis to expose buried infrastructure or prepare an area for future work.”

It is a well-run company with a history of high margins and strong returns on equity, and it represents a good, diversified play in the industrial sector, as it offers services for a broad range of infrastructure-related industries, including the oil and gas industry, petro-chemical plants, power plants and other large industrial facilities in North America.

The stock has had a volatile few years, with short sellers going after it, and a multiple that went from frothy and rich, to current levels that are bordering on dirt cheap.

Back to the news that has the stock rallying today: it's third-quarter [earnings release](#).

Badger reported a 20% increase in revenue, 31% increase in its adjusted EBITDA, and a 57% increase in EPS, as activity and pricing was strong and the company continued to achieve benefits of scaling.

In the first nine months of 2018, revenue increased 20%, adjusted EBITDA increased 25%, and cash flow from operations increased by 27%.

Long-term strength

Badger has enjoyed a 15.5% 10-year compound annual revenue growth rate, EBITDA margins of between 25% and 30%, and continues to benefit from a solid balance sheet, thus giving it the flexibility to continue to grow organically and via acquisitions.

It is an increasingly stable revenue and cash flow generator that has an increasingly larger amount of

its business coming from stable and predictable sectors such as the utility sector.

The energy sector actually accounts for approximately 40% of revenue, and the company is actively growing its business from other industries, so we can expect this number to continue to decrease going forward.

In any case, the energy sector has been recovering, so this exposure can be viewed positively.

The market for non-destructive excavation is healthy, as clients are choosing the digging solution that doesn't disturb the infrastructure such as pipes, as this is clearly more desirable.

Also, the macro-economic environment in Canada and the U.S. is highly supportive of ongoing construction projects.

In the energy sector, oil prices keep rising, and recent news that the \$40 billion LNG project got the go-ahead is just the latest news that shows a strengthening spending environment for Badger.

Steady economic growth will continue to boost spending on municipal projects, utilities projects and energy projects.

Management still has a goal of doubling the US business over the next 3 to 5 years, as they continue to see opportunities for more uses for the hydrovac as well as geographic expansion.

Trading at approximately 18 times this year's expected earnings, this stock has never been cheaper.

CATEGORY

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