



## A Top Stock Pick for 2020

### Description

A top stock pick that I would like to talk about in this article is [not very well known and not very well understood](#). But that's a good thing, because it gives us a chance to get into this high-quality stock at very attractive valuations today.

When excavation is required in sensitive and/or confined spaces, the answer is not a simple one. It requires a sensitive and/or flexible solution. **Badger Daylighting** (TSX:BAD) has this solution. With its proprietary hydrovac excavation trucks, and its very ambitious growth plans, Badger stock is a top stock pick for 2020.

### Who requires Badger's services?

Badger's customers cover a broad and diversified set of small and large companies in different geographies and different industries. Badger is not confined by a lack of customers or potential customers. And Badger is not simply an oil and gas proxy that derives all of its revenues from oil and gas companies.

But if that is what you thought, I would totally understand. Because you would have reason to believe this due to how Badger is commonly described and due to its history. In 2014, revenue from oil and gas companies represented 51% of Badger's total revenue, and many market participants therefore classified the company as sort of an oil and gas play as a result.

Let's now take a look at today's revenue. In 2018, oil and gas revenue represented 27% of total revenue a far cry from 2014 levels. Utilities represented 39%, the construction industry represented 21%, and while the telecom industry represented only 2% of revenues, this is a new and exciting growth area for Badger.

### U.S. revenue soars

A couple of years ago, management stated their goal to double the business in three to five years.

Today, they are 75% of the way there. The U.S. is driving strong revenue growth, as the company has seized on the opportunity to reach this huge untapped market, and cash flows from operations have continued to accelerate rapidly as a result.

In 2018, U.S. revenue increased 30% to US\$358,600. The company states that there is currently still a very significant number of areas in the U.S. where Badger does not provide its services, giving an indication of more strong growth to come.

## Scale drives growth and profitability in this booming business

The market for non-destructive excavation is healthy, as clients are increasingly choosing the digging solution that doesn't disturb the infrastructure, as this is clearly more desirable and as increased regulation related to safety and excavation take hold. And steady economic growth will continue to boost spending on projects such as municipal projects, utilities projects, and energy projects. The business is booming.

Badger benefits from its scale, as this helps to drive down costs, optimize its fleet utilization, increase its revenue per truck, and increase efficiencies. It also gives the company the financial resources to pursue its growth strategy. All of this gives Badger a big advantage compared to its competition.

## Dividend growth

This has all driven recent dividend increases. In 2018, the dividend was increased 6%, and in the last four years the compound annual growth rate in dividends was just over 12%. Dividend growth going forward will be supported by more of the same, as [rapidly rising revenue and cash flows allow the company to return cash to shareholders](#) via increased dividend payments.

## Foolish bottom line

Trading at 22 times this year's expected earnings and only 15 times next year's earnings, with accelerating growth, cash flow generation, and share buybacks, Badger stock is looking very cheap at this time. This is despite the fact that the company and the stock have a very bright future indeed.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:BDGI (Badger Infrastructure Solutions Ltd.)

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**Date**

2025/08/21

**Date Created**

2019/09/29

**Author**

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