Attention Investors: There's a Massive Sale Right Now on This Top Stock

Description

Badger Daylighting Ltd. (TSX:BAD) stock is down 15% at the time of writing, the morning after the release of third-quarter results. That's huge and it can either make us pick up and run or it can spark another look at a company that has satisfied investors in the past. So whether you own the stock today and are feeling nervous or you are looking for the next sale in the market, stay with me as I explore Badger stock and the best path forward for investors.

Should you cut your losses and run?

Badger stock is down more than 30% from its highs of this year. When a stock is getting killed to this extent, it is natural for investors to be tempted to just cut and run. At this point though, we must take a closer look at what is driving the decline and what it means for the future.

Badger reported third-quarter results that were well below expectations, largely as a result of a sharp fall in margins due to the company's growth initiatives taking place across the board. This took the form of higher labour costs in the U.S. and higher general and administration expenses related to the company's new enterprise resource planning (ERP) system implementation.

We knew that Badger was in aggressive growth mode, so while it seems that the company could have signaled this sharp increase in costs better and that the market should have anticipated this regardless, the bottom line is that long-term growth is still good.

So if this deterioration in margins is temporary, which I believe it is, we are left with the same company we had before this nerve-racking drop, except at better valuations and bigger. Therefore, maybe we should be looking to add to our positions or for those of us who do not own the stock, to add it to our portfolio. Here are the merits of Badger and Badger stock.

Diversification serves Badger well

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.

While the company was historically very leveraged to the oil and gas industry, this exposure has come down in the last few years as a result of weakness in the industry but also as a result of the company's efforts to diversify into other industries.

In 2018, oil and gas revenue represented 27% of total revenue (down from 51% in 2014), 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.

Reduced short-term outlook but strong long-term outlook

With this disappointing quarter, Badger management has reduced its 2019 earnings before interest, tax, depreciation, and amortization forecast to $155 million to $170 million (versus the prior forecast of $170 million to $190 million). However, all told, and despite the disappointing quarter, results are not that bad. Third-quarter revenue increased 9%, EPS increased 5.8%, and cash flow per share increased 4.4% to $1.41. The stock is trading at 18 times this year's earnings estimate and 12.5 times the 2020 consensus estimate.

While growth is coming down in the short term, Badger's 2016 goal of doubling the business in three to five years will happen on schedule in the fourth quarter of 2019. Today, it is more than 75% of the way there. The U.S. is still driving strong revenue growth as the company has seized on the opportunity to reach this huge untapped market, and cash flows from operations continue to accelerate.

Foolish final thoughts

Badger is clearly in growth mode today, with increased spending hitting margins but also setting the company up for future revenue growth. The coming years will see a renewed focus on driving margins through costs cutting but also through the benefits of increased scale.

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