This Billion-Dollar Canadian Stock Has Lost 27% Since July 2019

Description

Shares of Canada-based soil excavation company **Badger Daylighting** (TSX:BAD) have been volatile over the years. The stock has underperformed broader markets in the last five years, as it has returned just below 17% since November 2014.

The stock is trading at $36.05 and has lost 27% since July 2019. The recent pullback has meant that Badger is trading at its two-year low and wiped out significant gains. Investors lost considerable wealth after the company's unimpressive second-quarter results.

It reported earnings of $0.33 in the June quarter, 25% below consensus estimates of $0.44. Badger stock made a strong start to the year and was up by 56% in the first six months of 2019.

So, is the stock attractive at the current trading price?

Badger sales rose 8.9% in Q3

Badger is a leading excavating services company in North America. It works for contractors and facility owners across a range of infrastructure industries. The company's flagship technology is the Badger hydrovac, which is used for safe digging in congested ground and challenging conditions.

In the September quarter, Badger's revenue rose 9% year over year to $183.7 million. Strong sales in the United States market offset the decline from Badger's Canadian operations. The U.S. region accounted for $110.8 million in Q3 sales and experienced a growth of 12%.

Revenue growth in the U.S. was attributed to strong customer demand driven by the adoption of hydro excavation as the preferred excavation method. The demand would have been higher, as the company was impacted by lower working days in Q3 due to Hurricane Dorian.

What next for Badger and investors?

Back in 2016, Badger had outlined a few financial targets it wanted to achieve. It aimed to double revenue from the United States within the next three to five years. Badger also estimated EBITDA growth of 15% annually and targeted EBITDA margins between 28% and 29%.

It has successfully managed to double revenue from the U.S. In 2018, the company's adjusted EBITDA growth stood at 29%, while in the first nine months, EBITDA grew by 8%. Since 2016, Badger's EBITDA has risen by 63%, or an annual rate of 18%.

It has, however, missed its EBITDA margin forecast. In 2018, adjusted EBITDA rose 110 basis points to 26.3%. This fell by 120 basis points in the first three quarters of 2019 to 24.9%. In 2019, the company estimated EBITDA between $155 million and $170 million, lower than its previous forecast of EBITDA between $170 million and $190 million. The lower EBITDA forecast was attributed to a rise in general and administrative expenses.

The verdict

Analysts expect Badger's revenue to rise by 8.8% to $669 million in 2019, 11.5% to $746 million in 2020, and 8.6% to $810 million in 2021. This will also help the firm increase EBITDA from $162 million in 2018 to $211 million in 2021.

Analysts' estimates indicate that EBITDA growth for Badger will be about 9.2% annually. It will end 2021 with an EBITDA margin of 26% as per consensus estimates, both of which are below the company's target.

Badger stock is trading at a forward price-to-earnings multiple of 17. Comparatively, analysts expect earnings to decline by 10.4% in 2019 and then rise 29.3% in 2020, indicating the stock is trading at a premium, even after accounting for its dividend yield of 1.6%.

The stock might move lower in case it continues to miss consensus target estimates going forward.

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