TFSA Investors: 1 Top Growth Stock to Buy Right Now Into January 2020

Description

After correcting 23% from its all-time high of $48 per share, growth stock **Badger Daylighting** (TSX:BAD) is once again trading at an attractive valuation — a price-to-earnings ratio of roughly 20.3, which is compelling for the estimated earnings-per-share growth rate of roughly 20% over the next two years.

The average analyst 12-month price target represents almost 20% upside potential.

Where will Badger's growth come from?

In the last three years or so, Badger has doubled its business operations in the United States — its key area of growth. (The market made up 80% of Q3 revenue.) However, it has only penetrated about 23% of Metropolitan Statistical Areas in the country, which means that the company still has tonnes of room to grow.

In fact, Badger announced another target to double its U.S. operations again over the next three to five years with adjusted EBITDA growth of 15% on average per year. Moreover, management forecasts there's room to expand the adjusted EBITDA margin by 310-410 basis points.

Buying Badger stock a few years ago at a reasonable multiple of roughly 23 times earnings led to total returns of +20% per year. If the company achieves the 15% EBITDA growth rate, as it said it would, over the next three to five years, investors today will be looking at total returns of 14-21% per year, barring a market-wide crash.

Profitability

Badger has a strong track record of profitability with return on equity of 10-31% every year since 2009, which includes the last recession. This shows that the business remains profitable throughout the business cycle. The five-year average return on equity sits at a solid 18.5%.

Badger's customer base is diversified across different industries, which should reduce the impact of any one industry (e.g., the negative impact of a slowdown from the Canadian oil patch). Over the trailing 12 months, its key contributors for revenue is as follows: 41% in utilities, 24% in oil and gas, 14% in general construction, and 11% in industrial.

Recent results

Recent results were good. Year to date, revenue increased by 13% to $492 million, driven by Hydrovac Service revenue growth of 14% to $472 million. Adjusted EBITDA climbed 8% to $123 million with an EBITDA margin of 24.9%, down 120 basis points. Net profit was $44 million, down 1% but remained flat at $1.20 on a per-share basis.

2020 outlook

For 2020, it estimates adjusted EBITDA will be in the range of $175-195 million; the midpoint represents 14% growth over the 2019 estimate.

Dividend is icing on the cake

Badger increased its dividend by 11.6% per year on average over the last five years. Because the stock yields only 1.5%, it's best for investors to think of the dividend as a bonus and focus on getting strong price appreciation from the stock.

Year to date, Badger's payout ratio was 34% of net profit. So, there's a big margin of safety to protect the dividend.

Investor takeaway

Badger has lots of growth runway from its expansion into the United States. The growth stock is attractively priced today, but it can still experience further weakness over the next quarter.

If it does, it'd be a better buying opportunity for long-term double-digit growth. Therefore, interested investors can consider starting a position today and add more over time.

Because Badger is a low-yield stock that focuses on growth, interested investors should hold the stock in a TFSA, RESP, or non-registered account.

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1. Dividend Stocks
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