



A TSX Stock That Could Correct to the Upside in a Big-Time Way!

Description

We're probably in one of the most inefficient markets in recent memory. The coronavirus has caused an unprecedented amount of disruption to many firms. At this juncture, it's difficult to gauge just how much worse things could get, how much longer such disruptions are going to last, and what the road to recovery is going to be.

In any case, such an inefficient market means that you've got a higher chance to buy a stock at a [lofty discount](#) to its intrinsic value.

Stop trying to predict the shape of the recovery!

If you've tuned into the mainstream financial media of late, you've probably heard pundits trying to predict the recovery with some letter like V, W, U, or L, as though it was the "letter of the day" segment on Sesame Street.

Given the uncertainties and the wide range of possibilities of this pandemic, it doesn't make sense to position your portfolio with the expectation of whatever shaped recovery you think we're headed for.

Instead, it's a better use of your time to focus on individual businesses that are at discounts to their intrinsic value and holding them for the long haul.

Whether we're talking about firms that can better hold their own come a second wave of coronavirus infections or firms that would have the most upside if a vaccine were to land, you should always consider the price you'll pay for the value you'll receive, regardless of when you think the recovery will be.

This piece will have a look at a beaten-up but compelling stock that's in a position to come roaring back, regardless of what letter-shaped recovery we'll be in for.

An infrastructure play that's fallen into a hole

Without further ado, consider shares of **Badger Daylighting** (TSX:BAD). The company is a provider of hydrovac soil excavation services for various firms, many of which are in the oil and gas (O&G) industry, dig up buried infrastructure, effectively bringing them to the light of day.

Badger touts its non-destructive hydrovac technology, which essentially uses pressurized water to dig into the ground, as "cutting edge." But many skeptics, including [fellow Fool contributor Chris MacDonald](#), would disagree that Badger has anything special or remotely "cutting edge" on its hands.

"There is nothing proprietary about Badger's business model that would entice me to believe that this company deserves its current valuation multiple. I view Badger as overvalued and having earned the distinction of a 'value trap' in my book," said MacDonald.

I'm in agreement with Chris in that Badger doesn't have a remarkable durable competitive advantage up its sleeves for being in possession of a hydrovac-equipped fleet of trucks, but think that MacDonald is wrong to call Badger a value trap.

Not a BAD stock at these valuations, at least!

At the end of the day, the demand for Badger's services ultimately depends on the cyclical demand for infrastructure spending. As we head deeper into a recession, infrastructure spending is going to be muted, to say the least.

That's a huge reason why Badger stock lost nearly 60% of its value in the latest peak-to-trough decline. Given that ROICs have been downtrending over the past few years, I think peak infrastructure spending is mostly behind us and that a majority of damage to Badger stock has already been done.

As the economy looks to recover and pressures are taken off the oil patch, I view Badger as a top cyclical rebound candidate for those looking to ride on the back of the next bull market. Infrastructure spending will inevitably recover.

When it does, I suspect that Badger will command a multiple far higher than 2.8 times book and 7.9 times EV/EBITDA.

Foolish takeaway

While you're unlikely to catch the bottom in the name as the economy continues tumbling, it makes sense to scale into a position at today's compelling valuations before the next cyclical upswing brings forth amplified upside.

Speaking of amplified upside, you may wish to check out these stocks if you're looking to position yourself for the next bull market.

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TICKERS GLOBAL

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