This Battered Infrastructure Stock Could Be Ready to Rebound

Description

It's been a nasty year for nearly every stock out there. With rate hike jitters and persistent inflation, the economy could take a turn for the worst, dragging the broader stock market to even lower lows in the second half. For infrastructure stocks, the current environment is just brutal, given infrastructure spending tends to go way down when economic conditions begin to really decay.

Though the outlook couldn't be uglier at this juncture, one can't ignore the damage that's already been done to markets in the first five months. The S&P 500 fell as low as 20%, and it's hard to tell if the level will be revisited as central banks look to deliver more rate hikes, even if it means jeopardizing the economy's health.

Badger Infrastructure Solutions: A dirt-cheap stock that's dug itself quite a hole

Badger Infrastructure Solutions (TSX:BDGI) is a mid-cap stock that's been in free-fall mode since peaking back in March 2021 at just shy of $45 per share. Shares are currently down around 36% from its 2021 high and 41% from its all-time high not seen since 2019. It's been a rough patch for Badger, with the yield now swollen to 2.3%.

For those unfamiliar with the company, it provides non-destructive mobile excavation services. The company's fleet of over 1,350 hydrovac-equipped trucks helps firms dig up buried infrastructure or provide the means to layout new underground assets.

What's a hydrovac? It's essentially a device that shoots pressurized water for digging earth and exposing what's buried to the light of day. It's a dirty job, but somebody has got to do it!

Indeed, the firm formerly known as Badger Daylighting is a stealthy way to play the booming oil andgas (O&G) industry. Though Badger provides services to a broad range of clientele that span many industries, the O&G space remains most lucrative, especially with energy prices so elevated due to the Ukraine-Russia crisis.

Badger's woes won't be quick to fix

Undoubtedly, Badger can't point the finger at the macro environment. Many of the firm's margin woes are self-inflicted. In the firm's latest quarter, margins — once again — came up well short of analyst expectations. EBITDA margins came in at 9.4% due to the impact of the Omicron variant of COVID. Though the pandemic has been a major headwind for the firm, it should subside going into the second half. Given this, management is confident that it can get its margins back on the right track.

With a healthy balance sheet and a pathway towards margin enhancement, I view shares of BDGI as more of a bargain than a value trap. Undoubtedly, the company has been through a lot, with Omicron weighing heavily on operations. Though management's track record is not the best in the world, I think investors have a lot to gain by giving them the benefit of the doubt.

The price of admission is relatively low, with shares currently trading at just 1.6 times sales and 3.7 times book value. As COVID headwinds dissipate and recession fears prove overblown, I'd look for Badger to start moving higher again.

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