



Is Progressive Waste Solutions An Unloved Gem in the North American Garbage Industry?

Description

Maybe it's because a pack of racoons left our garbage strewn across the driveway last night (for about the 715th time) but for some reason I've got garbage on the mind.

We deal with garbage on a daily basis and therefore, there aren't many industries that we are better suited to "get".

And because garbage is something that needs to be dealt with on a daily basis, the industry has the appealing characteristic of relative consistency going for it. A friend of the long-term investor.

What this level of consistency lends itself to is an industry that cranks out free cash. Another friend of the long-term investor. Because of the capital intensity involved in the business, earnings aren't necessarily the best metric to key on when analyzing a waste related entity. Stick to free cash and you'll have a better picture of the strength of the underlying business.

With that said, let's have a look at how Canada's largest listed garbage related entity, **Progressive Waste Solutions** (TSX:BIN,NYSE:BIN) stacks up against its North American peers using several free cash based metrics. The results are tabled below. (*FCF margin = Free cash/Revenue*)

Company Name	Market Cap (B)	FCF Margin (LTM)	FCF Margin (5 Yr)	P/FCF
Waste Connections (NYSE:WCN)	\$5.220	16.2%	15.5%	
Republic Services (NYSE:RSG)	\$12.374	8.3%	7.6%	
Waste Management (NYSE:WM)	\$19.557	7.2%	8.7%	

Progressive Waste	\$2.730	3.7%	9.1%	
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Source: Capital IQ

Over the past 12 months, clearly Canada's entry to the group has not fared well based on this metric. This dynamic has been reflected in the stock's year to date performance relative to the rest of the group. With a gain of 9.4% BIN lags the rest of group average return of 21%.

Progressive has been plagued by volume issues in recent times, however, a corner may have turned. The company reported positive results for the second quarter and raised FCF guidance for 2013 to a range of \$211-\$225 million. The mid-point of this range represents a FCF margin of 10.8% based on sales over the past 12 months and a forward FCF multiple of 12.5. Both metrics appear far better in the context of the group compared to BIN's current showing.

The Foolish Bottom Line

Waste Connections appears to have been the best performer over the past 5 years based on its FCF margins. And indeed, WCN's stock is up 74% over this period. The rest of the group has averaged a return of just 10% over the past 5 years. A high FCF margin has translated to a great return for Waste Connections, and if Progressive can follow through with its guidance and boost this metric into the double digits, shareholders are likely to benefit.

For 3 more businesses that are no stranger to producing gobs of free cash [click here now](#) to download the Motley Fool's special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**".

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Fool contributor Iain Butler does not own shares in any companies mentioned at this time. The Motley Fool owns shares of Waste Management.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RSG (Republic Services, Inc.)
2. NYSE:WCN (Waste Connections)
3. NYSE:WM (Waste Management, Inc.)

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tmfohcanada

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