



This Company Stinks... and That's Why We Love It

Description

In the industrialized world, the amount of waste we produce is a huge problem.

How often have you thrown away a perfectly good item because you couldn't find someone who needed it? How many metric tons of food do restaurants and grocery stores throw away every single day? How much construction material is hauled away because using the scraps would just be too cumbersome? How often have you noticed the amount of plastic used to package just a small item? All this stuff ends up at some landfill, somewhere.

Going to the landfill is a humbling experience. The last time I went I was flabbergasted at the amount of waste we generate. Garbage is set to become a major issue going forward, and the potential environmental impact is huge.

This is all very good news for investors in one company, **Progressive Waste Solutions** (TSX: BIN)(NYSE: BIN), which delivers and collects waste disposal units for residential, commercial, industrial, and municipal customers over 13 American states and six Canadian provinces.

Yes, Progressive Waste hauls away our garbage. I told you it was a smelly company.

Fortunately for shareholders, garbage is a good business. As North America's population continues to grow and we search for alternative solutions to deal with our waste, Progressive Waste is well positioned to take advantage of this upcoming trend.

On the surface, the company's P/E ratio of 24 times trailing earnings and its price to book value of 2.5 look expensive. But just looking at those metrics alone discounts a few areas of good potential growth for Progressive Waste going forward.

The company's growth has been impressive. Over the past four years, revenue is up more than 43%, and net profits are up more than a third. Since the waste hauling business is so fragmented, the company has made several acquisitions that have helped to boost its numbers.

The company is a big acquirer, swallowing up 19 competitors in 2012. Growth by acquisition slowed in

2013 — the company only acquired three competitors last year — but it's obvious the industry is ripe for consolidation. Progressive Waste continues to be on the lookout for acquisition targets that meet return requirements.

It also has the potential to get municipal waste collection contracts. Cities know that one of their biggest challenges going forward are the benefits that municipal workers have been promised. If they cut back those benefits, it's tougher to find blue collar employees. It's easier for the city to just contract out the service to Progressive Waste, paying it a set rate every year, and not have to worry about the headaches that come with employing its own workers.

The company is also moving aggressively into the recycling business, with its acquisition of 19.9% of TerraCycle, a company that recycles everything from cigarette butts to drink pouches. Progressive Waste will use TerraCycle to greatly increase the opportunity for corporations and governments to recycle. Large organizations know it's good publicity to actively cut down on waste, and the company is poised to help them do so. Recycling has the potential to be a huge growth driver in the waste business.

Like its chief competitor, **Waste Management** ([NYSE: WM](#)), Progressive Waste produces energy from landfill waste. As garbage decomposes, it produces methane gas. The company collects the gas and uses it to generate energy, growing this business almost 100% since 2007. Its facilities generate the equivalent of 200,000 barrels of oil worth of energy every year. Expect this business to grow in the future.

Foolish bottom line

While Progressive Waste continues to be mostly a waste disposal company, it has some interesting growth pieces. Municipalities will continue to contract out waste disposal, giving Progressive Waste opportunities to get those contracts. Recycling will also be a growth business, as will landfill management.

Finally, is there anything more fun than saying you own a garbage company in your portfolio? It's an unglamorous business, but dirty jobs are often some of the most profitable.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:WM (Waste Management, Inc.)

Category

1. Investing

Date

2025/06/28

Date Created

2014/04/17

Author

nelsonpsmith

default watermark

default watermark