



Why Progressive Waste Solutions Ltd. Dropped Over 14% on Tuesday

Description

Progressive Waste Solutions Ltd. (TSX:BIN)(NYSE:BIN), one of the largest providers of waste management solutions in North America, watched its stock fall over 14% on Tuesday, October 20, after it announced preliminary third-quarter earnings results. Let's take a closer look at the company's release to determine if this sell-off represents a long-term buying opportunity, or if the stock could continue lower from here. All figures are in U.S. dollars.

The preliminary results that ignited the sell-off

In its press release, Progressive stated that it expects to report consolidated revenues of approximately \$489 million in the third quarter, which came in line with its expectations, but came in below analysts' expectations of \$495.4 million.

The company also stated that it expects to report consolidated adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of approximately \$127 million, which came in below its expectations and is a result of the negative impact of the foreign currency exchange and higher operational costs primarily in its western region.

The results led to Progressive updating its full-year outlook on fiscal 2015, now calling for adjusted EBITDA in the range of \$480-485 million, which is down from its previous outlook of \$500-515 million. On a positive note, the company stated that it continues to anticipate revenue in the range of \$1.925-1.945 billion, which is in line with analysts' expectations of \$1.935 billion.

Analysts pile on the negativity

Following Progressive's press release, analysts turned on the stock and began piling on the downgrades. Wedbush Inc. started things off by downgrading the stock from an outperform rating to a neutral rating and assigned a price target of \$28 per share, which is down from its previous target of \$31 per share.

Several other firms followed suit with downgrades throughout the day's trading session, including CIBC World Markets, BMO Capital Markets, National Bank Financial, and Stifel Nicolaus.

What should you do with the stock now?

The preliminary results released by Progressive Waste Solutions were not ideal by any means, so I think its stock reacted correctly by moving lower. However, I think the analysts who downgraded the stock were simply trying to make themselves look better by not having a positive rating on a stock that was selling off.

With this being said, I think the sell-off was overdone and actually represents an attractive long-term buying opportunity, because the stock now trades at inexpensive forward valuations and because the company has shown a strong dedication to maximizing shareholder value through the payment of dividends and share repurchases.

First, Progressive's stock now trades at just 24.3 times fiscal 2015's estimated earnings per share of \$1.24 and only 20.9 times fiscal 2016's estimated earnings per share of \$1.44, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 25.5, its five-year average multiple of 27.6, and its industry average multiple of 27.1.

Even with the negative sentiment surrounding Progressive, I think its stock could consistently command a fair multiple of at least 25, which would place its shares upwards of \$36 by the conclusion of fiscal 2016, representing upside of more than 19% from today's levels.

Second, Progressive pays a quarterly dividend of \$0.17 per share, or \$0.68 per share annually, which gives its stock a solid 2.3% yield at current levels. It is also important to note that the company has raised its dividend for four consecutive years, and its ample free cash flow generation, including an estimated \$165-180 million in fiscal 2015, could allow for another increase in 2016.

Third, Progressive has been actively repurchasing its shares, including the repurchase of 2.7 million shares in the second quarter for a total cost of approximately \$78 million. The company also authorized a normal course issuer bid on August 26, 2015 for the repurchase of up to 10 million shares through August 27, 2016, and this represents 9.2% of its total public float as of the date it was announced. These repurchases will boost its earnings-per-share growth going forward and will make its remaining shares more valuable than ever before.

With all of the information provided above in mind, I think the sell-off in Progressive Waste Solutions represents an attractive buying opportunity. Foolish investors should take a closer look and consider beginning to scale in to long-term positions over the next couple of trading sessions.

CATEGORY

1. Investing

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