



Is Waste Connections Inc. a Treasure Among the Trash?

Description

Waste Connections Inc. ([TSX:WCN](#))([NYSE:WCN](#)) is a fantastic defensive name that has returned a whopping 37.3% over the past year. The company is definitely not a high-flying name that you'd discuss over the dinner table. It's in the boring business of solid waste collection, transfer, disposal, and recycling services. Waste management will always be needed, even during the harshest of recessions, so there's a huge safety net for investors who are worried about an economic downturn.

The Canadian company Progressive Waste Solutions is now a part of Waste Connections after the merger which was announced last year. There are plenty of synergies which will be unlocked by the management team that will drive long-term free cash flow generation.

This cash flow will need to be used to pay back the company's huge debt load. There's \$2.1 billion worth of debt, and the company only has \$9 million worth of cash. It's a lot of debt, but I don't think it's something investors should be worried about considering that the consistent stream of cash flow will be growing for years to come.

Over 83% of the company's revenues come from the U.S., and there's a huge opportunity to increase earnings next year thanks to a lower American corporate tax rate which will be introduced by Donald Trump. The management team will use a majority of its free cash generated to aggressively deleverage its balance sheet, so shareholders may not be able to reap huge rewards through share buybacks or upped dividends in the near future.

The dividend yield is at a very modest 0.91%, which may not seem like much, but once the company is in better financial shape, it's very likely that the dividend will be increased on a consistent basis given the predictable nature of the waste-collection business.

Warren Buffett loves simple companies with predictable earnings and wide moats. Waste Connections is a simple business that is unlikely to change a lot over the next decade. With this kind of simplicity comes predictable earnings. The company has slowly grown earnings over the past decade, and it's very likely that the same upward trajectory will be followed for the next decade.

What about valuation?

The company currently trades at a 51.9 price-to-earnings multiple, which is quite expensive given that Waste Connections is a slow-growing stalwart. I would recommend waiting on the sidelines until the stock pulls back to a more attractive level. The stock is recession-resistant and will outperform during the next economic downturn, but unless you're bearish on the markets, I would avoid Waste Connections for now.

CATEGORY

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