



Waste Connections Inc.: This Stock Has Soared Over 20% This Year

Description

Back in May 2016, **Waste Connections Inc.** ([TSX:WCN](#))([NYSE:WCN](#)) bought Toronto's Progressive Waste Solutions in an all-stock deal, thus creating the new Waste Connections Inc. Progressive Waste Solutions shareholders own approximately 30% of the new company, and the old Waste Connections shareholders own the remaining 70%. The new combined company is the third-largest solid waste company in North America.

Early this morning, the company reported better than expected first-quarter results which confirm my bullish thesis on the stock, and that is evidence of very strong industry fundamentals. Let's take a look at the highlights of the results.

Strong free cash flow

In the first quarter of 2017, the company continued to generate impressive amounts of cash, which is consistent with its history of free cash flow generation. Net cash provided from operating activities was \$287.5 million, and free cash flow was \$237.5 million, representing an impressive 21.8% of revenue.

Another beat

The company continued to beat expectations this quarter, and analyst expectations have therefore been increased. The free cash flow which came in this quarter was one-third of management's free cash flow target of \$725 million for the full year and sets the company up very well to continue to handle the debt on its balance sheet and to continue to consolidate its fragmented industry.

During the first quarter, the company completed four tuck-in acquisitions, each with roughly \$10 million in revenue. Furthermore, another acquisition that is in the works remains under review, and this one will contribute \$15 million in revenue. Management has said that the acquisition potential remains robust, and they continue to have M&A discussions with a number of industry participants.

Valuation

The analysis would not be complete if we didn't take a look at current stock valuation. So, we know the

company is performing above expectations and looks to have strong growth ahead of it. Now, let's see what we as investors are paying for this strong growth profile.

On a P/E basis, the stock looks pricey at 40 times next year's earnings, but on a P/B basis and a P/CF basis, it looks more reasonably priced. In any case, the growth and financial performance of this company leaves me comfortable with its valuation. We are paying for a quality company with strong growth prospects.

In summary, Waste Connections Inc. is a solid, well-run company which is poised to continue to do well even in a weak economy due to the defensive nature of its business.

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