



Is it Time to Buy Waste Connections Inc. as it Hits a 52-Week High?

Description

Waste Connections Inc. ([TSX:WCN](#))([NYSE:WCN](#)) has recently been trading at 52-week highs as the company has continued to perform well in the execution of its strategy with continued volume increases, better pricing, and cost discipline driving returns higher.

In May 2016, the company 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 combined company is the third-largest solid waste company in North America.

Fast forward to today, after a one-year stock price return of 40% and a three-year stock price return of 125%, the stock is trading at over \$130 per share.

Stock split

Shareholders recently approved a three-for-one stock split. As of June 16, 2017, total shares outstanding will increase to almost 790 million shares, and the stock price will therefore be \$43 per share compared to the current \$130 per share. This is the fourth split the company has made in its history.

The effect of this, as we know, is to increase the marketability of the shares, increase the number of shareholders, increase liquidity, and make it more affordable for smaller investors. All of this, in effect, increases the demand for the company's shares.

No signs of stopping

Volume growth, pricing increases, and cost discipline are expected to continue and point to further success and strong share price performance going forward.

The company's first-quarter results of 2017 are evidence of the impact these factors are having.

Waste Connections continued to beat expectations during the quarter, and analyst expectations were therefore increased. The free cash flow that 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.

In the first quarter of 2017, Waste Connections continued to generate impressive amounts of cash — 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.

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 42 times this year's earnings, but on a P/B and P/CF basis, it looks more reasonably priced. In any case, the growth and financial performance of this company makes 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 that is poised to continue to do well even in a weak economy due to the defensive nature of its business.

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Author

karenjennifer

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