



Value Investors: Get Ready to Do a Deep Dumpster Dive for This Gem

Description

For Canadian investors looking to roll up their sleeves and get dirty with some equity analysis, **Waste Connections Inc.** ([TSX:WCN](#))([NYSE:WCN](#)) is the stock for you. One of the largest solid waste services companies traded on the TSX, Waste Connections is also one of the fastest-growing companies in its space due in part to the company's acquisition-heavy business model. Waste Connections provides waste collection, transfer, disposal, and recycling services to its clients, providing a much-needed value-added services to clients in higher-margin regions of North America.

While taking out the garbage has always been (and will always be) the last thing anyone ever wants to do, it turns out that this business is a very profitable one and more profitable for some businesses than others. Compared to **Waste Management, Inc.**, Waste Connections's margins have traditionally outperformed its peers, and by a significant margin; however, in recent years, margins have been impacted by a number of acquisitions that have resulted in lower overall margins and elevated valuation ratios. Should Waste Connections's margins improve like I expect them to, significant upside remains from what may otherwise be perceived as a relatively bloated valuation.

Another reason many investors choose Waste Connections as a portfolio holding over other large names in waste disposal is the company's market segmentation compared to its competition. Knowing the underlying business of the company one wants to invest in is very important, and looking at Waste Connections's business model, it becomes clear that this is a company that has taken the time to go after the business that makes sense (and profits), rather than the business that simply churns out revenue and volume.

The ability of Waste Connections to continue to acquire other small regional operators and consolidate what continues to be a very fragmented industry will be a long-term driver of Waste Connections's success or ultimate failure. In picking acquisition targets, Waste Connections's management team has focused on buying up smaller, more rural operators, avoiding the bidding wars associated with many large urban markets. In doing so, the company has been able to produce impressive results — results that many analysts believe will result in outperformance in the future.

Bottom line

As an industry consolidation play, for a waste disposal business trading on the TSX, few other better options are available than Waste Connections. While the company carries a valuation that many consider to be hefty (and I tend to agree), I would invite investors to wait patiently on the sidelines for a better entry point. Should any dips materialize over the next few months, it may not “stink” to pick up a few shares.

Stay Foolish, my friends.

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