



Waste Connections Inc.: A Boring Way to Get Impressive Long-Term Results

Description

Waste Connections Inc. ([TSX:WCN](#))([NYSE:WCN](#)) may seem like a boring business that you probably wouldn't want to brag about at the water cooler, but with shares soaring ~187% over the last five years, there are many reasons why prudent long-term investors should consider adding this defensive growth gem to their portfolios.

Waste Connections is a typical Warren Buffett stock. It's a simple, easy-to-understand business that probably won't experience too many disruptors over the course of the next decade. The company delivers a reliable and predictable stream of free cash flow which is likely to remain strong, even through the worst of economic downturns. It doesn't matter if there's a recession or a depression — somebody has to take out the trash!

In the company's last quarter (Q2 2017), the company delivered a top- and bottom-line beat with \$1.175 billion in revenue and \$373.6 million in adjusted EBITDA, beating analyst estimations of \$1.149 billion and \$363.7 million, respectively. The management team upped its fiscal 2017 guidance, and shares rallied past 52-week highs in the weeks that followed. The company's solid waste experienced internal growth of 6% for the quarter, which was quite impressive. I believe the quarter was incredibly solid and the post-earnings rally was warranted.

The management team expects to be busy with acquisitions over the next few years, as the company's cash flow continues to pile up. Although the waste collection business is associated with low-growth stalwarts, Waste Connections has shown that it can be a high-flying growth player both organically and through strategic acquisitions.

Waste Connections only recently started paying a dividend, but I believe the company is a dividend-growth superstar in the making. The company generates a huge amount of predictable free cash flow, and I believe it'll be able to support consistent annual dividend increases in the double digits.

What about valuation?

Shares of WCN currently trade at a 38.5 price-to-earnings multiple, a 3.1 price-to-book multiple, a 2.9 price-to-sales multiple, and a 11.6 price-to-cash flow multiple. On a price-to-earnings basis, the

company looks expensive, but on a price-to-book basis, shares actually aren't too absurdly valued.

You're paying a premium for the growth, the quality of the management team, and the defensive nature of the stock, but I believe the premium is worth every penny if these are the traits you value most.

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Date

2025/07/07

Date Created

2017/09/13

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