No Signs of Stopping: Waste Connections Inc. Increases its Dividend by 17%

Description

Many of us are looking for investments that provide income to support retirement or generally to put our money to good use by generating an additional income stream.

Of course, if we can get income while also getting growth, both in income and in the share price, this would be ideal.

With a 24% dividend-growth rate in 2016, a 17% dividend increase in the third quarter of 2017, and a doubling of the share price since January 2016, **Waste Connections Inc.** (TSX:WCN)(NYSE:WCN) has given investors the best of both worlds.

Waste Connections is the third-largest solid waste company in North America, and with size and a clean balance sheet on its side, the company is well positioned to continue to return cash to shareholders and pursue its goal of continuing to consolidate its fragmented industry through acquisitions.

Continuing to beat expectations

The company has handily beat EPS expectations in the last two years.

In the third quarter of 2017, EPS came in at $0.60 versus expectations of $0.57, and in the second quarter of 2017, EPS came in at $0.55 versus expectations of $0.53.

And although the valuation on this stock is not cheap, trading at 43 times this year's expected earnings, the fact that the company is generating ample cash flow, is consistently beating expectations, and operates in a highly fragmented market that is ripe for consolidation all serve to justify this valuation.

Free cash flow machine

Revenue increased 11% in the latest quarter — the third quarter of 2017. Earnings increased 38%, and the company's adjusted free cash flow divided by revenue (free cash flow margin) was 17.7%.

The free cash flow margin of 17.7% is a clear sign that the financial health of the company is excellent. The more that the company can transform its revenue into cash, the better.

In fact, the company has been achieving an impressive free cash flow margin for years now. In 2015 and 2016, the ratio was just above 16%, and the company expects to maintain this going forward.

Balance sheet improvement

With the acquisition of Progressive Waste Solutions, Waste Connections assumed plenty of debt, and as of December 2016, it had a debt/EBITDA ratio of three times. While this is not ideal, it does not worry me, because the company's cash flow generation is strong.

As of the latest quarter, the debt/EBITDA ratio was improved at 2.75 times.

In summary, Waste Connections is well positioned to continue along this path of shareholder value creation. It 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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