



## 2 Top-Performing Stocks That Will Have Massive Upside in 2018

### Description

Sometimes past outperformance doesn't say anything about future performance, and other times it is but a glimpse of what's to come.

Here are two high-quality stocks that, in my view, are just beginning their journey of outperformance.

**Waste Connections Inc.** ([TSX:WCN](#))([NYSE:WCN](#))

Since January 2016, Waste Connections shares have doubled, as the company continues to integrate its acquisition of Progressive Waste Solutions back in 2016, and as the company [continues to generate very impressive cash flow](#).

And, in fact, the stock has used this cash flow primarily for paying down its debt, thereby reducing the risk profile of the shares, and for dividend payments, which have been increased significantly in the last few years.

The dividend was increased by 24% 2016, and a 17% dividend increase was initiated in the third quarter of 2017.

The company's debt-to-EBITDA ratio as of the last quarter was 2.75 times, which is kind of high, but it's down considerably since the Progressive Waste acquisition, when it was three times.

But with the company's strong free cash flow generation and free cash flow margin of 17.7%, this debt level does not concern me.

Waste Connections is consistently beating expectations and has plenty of room to grow in 2018 and beyond. And with approximately \$500 million of cash on its balance sheet that will probably be used to further the company's goal to be the consolidator in the waste management industry, we should see the stock react accordingly.

And as the third-largest solid waste company in North America, with size and a clean balance sheet, the company is well positioned to continue to return cash to shareholders as well as to pursue its goal

of continuing to consolidate its fragmented industry through acquisitions.

### **Martinrea International Inc. ([TSX:MRE](#))**

Martinrea's shares also have doubled since the end of 2016 and have more room to surge in the year ahead.

The stock stands to benefit from the fact that, at 8.5 times earnings, it remains very attractively valued, and as the company has been cranking out very strong results, the [valuation gap between its comparables](#) such as **Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#))** and **Linamar Corporation ([TSX:LNR](#))** should narrow.

After reporting a 24.9% improvement in EPS in the third quarter of 2017, the company is on track to report an expected 25% EPS growth for 2017 and 13% in 2018 based on consensus expectations.

But given that the company continues to improve margins at a much faster than expected rate, and that U.S. auto sales continue to be strong, I think there is upside to these numbers.

Magna trades at 10 times earnings, and Linamar trades at 8.7 times earnings. Magna's EPS growth rate for 2017 is expected to be 14% and 11% in 2018. Linamar should see a mere 2% growth rate in EPS in 2018 and a 7.8% growth rate in 2019. These EPS numbers are based on consensus estimates.

In closing, I believe that both Waste Connections and Martinrea have massive upside potential, even after the stocks have doubled in the last year or so.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. NYSE:WCN (Waste Connections)
3. TSX:LNR (Linamar Corporation)
4. TSX:MG (Magna International Inc.)
5. TSX:MRE (Martinrea International Inc.)
6. TSX:WCN (Waste Connections)

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