This Cash Machine Continues to Beat Expectations and Make Tonnes of Money for Investors

Description

Many of us are looking for investments that provide income to support retirement or to simply 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 share price, this would be ideal.

Waste Connections Inc. (TSX:WCN)(NYSE:WCN) is doing just that by turning tons of waste into tonnes of money.

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 has given investors the best of both worlds.

And the company is still going strong.

Recently released fourth-quarter and year-end 2017 results show more of the same.

Continuing to beat expectations

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

In the fourth quarter of 2017, EPS came in at $0.52 versus expectations of $0.48 for a year-ever year growth rate of 13%. This follows third-quarter EPS that came in at $0.60 versus expectations of $0.57.

And although valuation on this stock is not cheap, trading at 41 times 2017 earnings and 36 times next 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 10% in the fourth quarter, EPS increased 13%, and the company's adjusted free cash flow divided by revenue (free cash flow margin) was 17.6%.

The free cash flow margin of 17.6% 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 was not ideal, it did not worry me because the company's cash flow generation was and is strong.

As of 2017, the debt/EBITDA ratio was very much improved at 1.9 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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