Are You Wasting an Opportunity to Add Waste Connections Inc. (TSX:WCN) to Your Dividend Portfolio?

Description

If you're looking for a stable business to invest in, a good strategy is to look into ones whose business models are more than likely going to be around for a while. These companies should operate in defensible areas with low barriers to entry, so you can collect dividends, preferably rising ones, for years on end.

Well, I can't think of an area for which we have more constant need than that of waste disposal. After all, we create so much waste that we need to get rid of it somehow. With all the boxes coming from our **Amazon.com Inc.** packages that we ordered on Prime Day to our takeout food containers to the waste we produce from our everyday operations, we need to get rid of our trash.

There is one TSX-listed company that is working hard to meet these core needs for trash disposal. **Waste Connections Inc.** (TSX:WCN)(NYSE:WCN) provides both residential and commercial waste removal services. It is responsible for getting rid of all sorts of waste, such as yard, recycling, and garbage collection. In addition to its standard collection practices, the company also operates and maintains landfills and waste-processing facilities.

Waste Connections primarily operates extensively throughout Canada and the United States. The financial picture has been getting continuously better for some time. Recently, the company grew its total revenues by over 4%. It increased its adjusted EBITDA by 7% year over year — a respectable increase for a stable industry. Adjusted net income increased by 14% over the same period. That's stable growth for a stable company.

The company has a respectable balance sheet. It does carry a fair amount of long-term debt, as is often the case with capital and labour-intensive companies. The current portion is quite manageable given the stable earnings that Waste Connections produces, and the debt is staggered over a number of years.

Waste Connections operates in a much-needed sector, but it is not without its risks. Of course, the debt on its books, particularly long-term debt, is rather large. The business can also be competitive, with other companies looking to bid on contracts, and there is also the possibility that jurisdictions may choose to have a public garbage collection system as opposed to a private one. However, barriers to entry remain high, and the significant capital cost could protect the business somewhat.

The dividend is also not terribly attractive at the current stock price. The yield at cost is presently only 0.68% — not exactly a staggering income generator. But if you consider that the company has recently been raising its dividend and has a very low payout ratio of around 20% of earnings, and the company's financials seem to be growing enough to support dividend raises, it seems that Waste Connections may have some room to increase its payout over time.

The real question, though, is whether you should add the company to your portfolio today. I would like to say yes on account of its much-needed service, geographic diversification, and potential for growth. But the stock is quite expensive at the moment, and the current yield is not large. It wouldn't hurt to add some to your portfolio and buy more if the stock price were to pull back on general market weakness, although there is no rush to buy today.

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