A Lucrative Growth Stock I'd Buy for 2019

Description

Last week I urged investors to consider buying **Waste Connections Inc**. (TSX:WCN)(NYSE:WCN) ahead of its earnings report.

Well since this report came out on Monday, Waste Connections stock has rallied 5.8%, as the company reported better than expected revenue growth of 6.2%, a 22% increase in net income, $203 million in free cash flow, and boosted its dividend by more than 14%.

With a 24% dividend growth rate in 2016, a 22% dividend increase in 2017, an expected 16% dividend growth rate in 2018, and a more than doubling of the share price since January 2016, Waste Connections stock has given investors the best of both worlds: income and capital appreciation.

Let's take a look at why Waste Connections stock is a great stock idea for 2019.

Continuing to beat expectations

The company has handily beat EPS expectations in the last few years, and 2018 is no different.

In the first nine months of 2018, EPS came in at $1.90 versus expectations of $1.85.

And although valuation on this stock is not cheap, trading at almost 30 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 in my mind.

Free cash flow machine

Revenue increased 6.2% in the latest quarter, the third quarter of 2018, EBITDA increased 6%, and free cash flow as a percent of revenue was almost 16%.

The free cash flow margin of 16% is a clear sign that the financial health of the company is excellent,as 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 in 2017 it was just over 15%.

Balance sheet improvement

With the acquisition of Progressive Waste Solutions, Waste Connections assumed plenty of debt, and as of December 2016, had a debt/EBITDA ratio of 3 times.

By December 2017, this had already come down to 2.7 times, and as of the latest quarter, the debt/EBITDA ratio improved even more, and stands at 2.2 times.

This debt level still does not worry me because the company's cash flow generation is strong.

Waste Connections remains in good shape to capitalize on the many M&A opportunities that exist, and this, along with pricing strength, will help drive continued growth.

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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