For Portfolio Stability, Add This Solid Stock

Description

When the market goes down in a hurry, and economic conditions are beginning to look a little shaky, it is a good idea to try to find stable companies to invest in. Companies that can better weather economic storms often provide essential services, have a diverse client base, and maintain pricing power.

Waste Connections (TSX:WCN)(NYSE:WCN) is one company that fits this category. This trashy stock seems to be one of the only companies that nobody seems to be dumping from their portfolios. Its stability comes from the fact that this is a business no one can do without. After all, no matter how bad the stock market is and how terrible the economy gets, no one wants piles of trash in their driveway.

The best part is, WCN has operations all over Canada and the United States. This business diversity allows the company to benefit from the U.S. economic growth and shields it from a potential slowdown in either country. Considering the company is already relatively recession-proof, the geographic diversification adds an extra buffer of safety for troubled times.

The stock is not cheap at 44 times trailing earnings and a price to book of three, but it trades at a value for a reason. This company offers growth, a consistent, stable business model, and a small dividend that has been growing over time.

WCN operates waste collection operations, recycling services, and landfill sites to communities all over Canada and the United States. The large majority of its operations are American, allowing the company to benefit from favourable currency and economic impacts.

Steady wins the race with this company. In the third quarter, WCN continued its streak of solid results. Adjusted net income increased by 15% a share over the same period a year earlier. The company is aiming for 8-10% revenue growth in the upcoming quarters. With prices for its services, such as the 4.5% solid waste price growth it experienced in Q3, this target should be easily met.

While it appears pathetically small at 0.76%, this dividend has been growing at a rapid clip. In the latest quarter, WCN increased the payout by 14.3%, not bad for a company that makes its money from sewage and garbage. In fact, the only reason the dividend seems so small is the result of the capital appreciation of its shares over time.

Of course, there are very few perfect stocks. The company has made acquisitions, which has added to its debt load. The good news is that while it does have a fair amount of long-term debt, its cash flow is more than enough to service it. WCN has also staggered the maturities of this debt effectively, so there is not a significant amount maturing in any given year.

It is always a good idea to have a selection of stable, solid stocks in your portfolio. The strategy pays off when times get tough, as we have seen with the share price of WCN as compared to the general market. Stocks such as this, with growing dividends and broad diversification, can offer you some comfort as other parts of your portfolio begin to fall apart.

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Date
2025/08/26
Date Created
2018/11/24
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