Here's a Breath of Fresh Air in a Stale Market

Description

Waste Connections (TSX:WCN)(NYSE:WCN) continues its ascent in a market that continues its relentless descent.

The performance of the **TSX Composite Index** since January 2018 is negative 10%, and there is no doubt that the downward momentum is accelerating and the risks are mounting.

But in this increasingly shaky and uncertain market, we can turn to companies like Waste Connections to keep us above water.

Up 16% year to date and only 4.5% lower than its summer highs, the stock has outperformed the market very nicely, and it has been a breath of fresh air amid many plunging stocks.

Late last week, we got the news that broker **Goldman Sachs** upgraded the stock to a buy, citing its defensive qualities and earnings predictability as reasons to buy.

I agree.

Here are the four main reasons to own this stock for 2019 and beyond.

Dividend growth

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

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 the valuation on this stock is not cheap, trading at almost 30 times this year's expected earnings, the fact that the company generates ample cash flow, consistently beats 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 percentage 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 three 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 acquisition opportunities that exist, and this, along with pricing strength, will help drive continued growth.

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Author
karenjennifer