Why You Should Buy and Hold This Dividend Stock Forever

Description

The market is finally starting to pay attention to the magic of **Waste Connections** ([TSX:WCN](TSX:WCN))(NYSE:WCN). In December, **Goldman Sachs** released a report extolling the structural advantages of operators in the waste management industry.

"Given the age of the current business cycle and expectations for slowing economic growth, we believe now is the right time to own waste stocks," Goldman's report read. "The waste sector not only compounds earnings growth at a higher rate than the overall market, but it does so with much less volatility and draw-downs in its earnings."

Looking at the business fundamentals, it's hard to disagree. Since 2009, shares of Waste Connections have risen by more than 500%, with less than half the volatility of the market overall. While the current dividend yield of 0.82% seems incredibly underwhelming, there's plenty of reason to believe Waste Connections will evolve into an income investor's dream.

Get ready for a radical shift in business strategy

Over the past 24 months, Waste Connections has focused on growing the business versus paying out its income. While this has kept the payout low, it's resulted in a large operation, where scale is critical.

As a larger operator, buying up smaller competitors to loop into its existing network and scale has been a valuable focus. But it looks like Waste Connection's focus is to satisfy income investors.

In December, Waste Connections acquired American Disposal Services, one of the largest privately owned solid waste collection and recycling businesses. The company generates about $175 million in annual sales and serves roughly 400,000 customers in the U.S. Following this acquisition, Waste Connection's sales should increase by 8-10% in 2019, all with expanded profit margins.

Assuming a four times price-to-sales multiple, Waste Connections likely spent nearly $700 million to purchase the company. Currently, Waste Connections only pays out about $160 million in dividends per year. If Waste Connections switches strategies from acquiring to boosting its dividend, the yield could double or triple quickly, with room to grow from there.

For its last quarterly dividend, the company boosted the payout by 14%. The period of rapid dividend increases for Waste Connection stock seems to be here.

A dividend that will never be cut

Goldman Sachs noted in their report that while “waste stocks have outperformed year to date, we believe that this historical tendency to outperform the most during recessions means that even greater outperformance could lie ahead.” The data supports this assertion.

For example, over the past year, when markets have been roiled by global growth concerns and volatile energy markets, the TSX has fallen by roughly 10%, while Waste Connections stock has risen by more than 15%. Investors are finally appreciating Waste Connection’s resilient business model.

Even in the worst recessions, people and businesses still need their waste and recycling handled. And due to benefits of scale, most waste management companies have large market shares where they operate. Waste Connections, for example, is the number one or two operator in nearly all of its markets.

This market share dominance helps support pricing power during downturns, as it’s difficult for competitors to move in quickly with aggressive prices. Last quarter, Waste Connections was able to boost prices by 1.2% year over year, all while experiencing a 1.4% rise in volumes.

Consistently higher volumes and prices regardless of the business cycle support one of the most stable earnings profiles in the stock market. As Waste Connections moves towards prioritizing its dividend over acquisitions, early investors can capitalize on what will become an income-paying machine.

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