Cash Is King: Why This Top Stock Deserves a Place in Your TFSA

Description

Let's go back to the basics.

Let's not talk about our guesses, educated as they may be, about what we expect to happen as a justification to buy a stock that is currently losing money or trading at absurdly high multiples. Back to basics means a focus on earnings, cash flow, and shareholder value creation — all things that **Waste Connections** (TSX:WCN) is doing and has been doing for quite some time now.

As such, it deserves a place in your TFSA today as you save for tomorrow, bringing with it dividend income as well as strong capital gains. The stock has a one-year return of 20%, a three-year return of 96%, and a five-year return of 208%.

Here is why you should consider buying Waste Connections today as it makes its way into the future.

Dividend growth

With a 24% dividend-growth rate in 2016, a 22% dividend increase in 2017, and an expected 16% dividend-growth rate in 2018, Waste Connections has provided its shareholders with a steady and growing dividend they can count on.

The current dividend yield is below 1%, a reflection of the stock's stellar performance, as Waste Connections stock has given investors the best of both worlds: income and capital appreciation.

The current payout ratio is 30%, so further increases are more than likely.

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 it 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 M&A opportunities that exist, and this, along with pricing strength, will help drive continued growth.

Final thoughts

Cash is king. So is earnings predictability and stability.

Investors get all this in Waste Connections, and as such, it makes a great addition to your TFSA.

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Date
2025/09/09
Date Created
2019/01/26

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