



Waste Connections (TSX:WCN) Stock Is Your Answer for the Next Bear Market

Description

It's a difficult time to invest in Canadian stocks.

The Canadian economy grew just 0.1% in the fourth quarter of 2018, and economists expect sluggish growth over the coming decade.

Canadian banks, the lynchpin of the entire economy, could also be facing trouble. "Canada has not had a credit cycle in a few decades," famed investor Steve Eisman recently [said](#). "I don't think there's a Canadian bank CEO that knows what a credit cycle really looks like."

Timing the market is incredibly difficult, so moving to cash isn't advised by most investing professionals. But if stocks look pricey and the economy appears fragile, where should intelligent investors place their bets?

Waste Connections Inc ([TSX:WCN](#))([NYSE:WCN](#)), an integrated waste services company, is the perfect stock for current conditions. Not only has it proven an ability to grow—the stock price has increased by more than 800% since 2009—but the company runs a recession-resistant business.

Here's why you should make Waste Connections a core part of your portfolio today.

Trash to cash

Waste Connections operates a fairly straightforward business. It gets paid to dispose of trash and recycling from residential, commercial, industrial, and government customers and has expansive operations in both the U.S. and Canada.

Waste collection is a hugely profitable business as long as you're a big player. There's a reason why industry juggernauts like Waste Connections (\$33 billion market cap) and **Waste Management, Inc.** (\$45 billion) control the market.

When competing for a new customer, it's all about pricing. Companies that can price the lowest

typically win. With its impressive scale, Waste Connections can out-price nearly any competitor within its core markets.

For example, the company has the number one or number two position in many of its markets. If it services 90% of the households in a neighbourhood, for example, it's already spending the funds to send a truck and crew to that area. This truck likely drives directly by the 10% of households it doesn't service.

How much does it cost for Waste Connections to add an additional few houses in that neighborhood? Next to nothing.

An outside competitor, by comparison, would need to send a dedicated crew and truck to service just a handful of customers. It's unlikely that competitor could price lower than Waste Connections.

Achieving critical scale results in a sort of monopoly for waste companies. At the least it's a friendly oligopoly, which ensures steady pricing and profit margins for all major participants, particularly Waste Connections.

Growth and resiliency

Waste collection may be boring, but there's plenty of room for growth.

In 2018, Waste Connections increased revenues by 8.6%. Operating margins improved to 15.8%, helping generate free cash flow of \$880 million. In 2019, management expects free cash flow to grow to \$950 million.

Perhaps most impressive is the company's stability due to its bulletproof business model. In both bull and bear markets, trash needs to be disposed. While revenues from industrial clients may fall, waste collection is about as recession-proof as it gets.

Over the past five years, Waste Connections stock has generated a beta of just 0.6 times, which means the stock has just 60% of the overall market's volatility. That's a great characteristic to have if a bear market hits.

Shares are priced at a premium 39 times earnings, but if markets start to swoon, that valuation will be worth the cost of entry.

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