



## TFSA Investors: Turn Trash Into Gold With Waste Management Stocks

### Description

Economic growth demands a rapid rise in both the number and volume of consumers. In other words, Canada's economy needs a steady rise in income, a consequent rise in consumption, and gradual expansion in population to continue its pace of development.

However, this consumption-driven growth has an obvious side effect: waste. In fact, Canada has outdone nearly every other developed nation when it comes to waste production. On a per-capita basis, Canadians produce 720 kilos of waste annually. That is double the rate of Japan, 10 times Africa's rate, and 7% higher than the United States.

The nation's dirty little secret was brought to mainstream attention this year when the president of the Philippines threatened Canada with war over a stockpile of garbage decomposing in Manila. Meanwhile, China and Indonesia have taken steps to refuse the waste management of other developed countries.

The accumulation of garbage is rapidly becoming a crisis. Fortunately, the private sector is stepping in to deal with the crisis and hopefully turn the waste management issue into a profitable industry.

Leading the charge is Vaughan, Ontario-based **Waste Connections** ([TSX:WCN](#))([NYSE:WCN](#)), which operates across Canada and the United States. The company's waste disposal, collection, and recycling services are currently offered to over six million customers, both commercial and residential.

With demand for waste solutions growing, the firm has settled on a [growth-by-acquisition strategy](#) that could soon make it one of the largest operations on the continent. Last year, growth in cash flows were so impressive that management decided to raise dividends by 14%.

The stock currently offers a measly 0.70% forward dividend yield, but that's because the stock price has accelerated over the past five years. Investors who bought in 2014 have tripled their investment over that period.

Currently trading at 57.5 times earnings, 6.2 times sales, and 4.8 times book value, the stock seems overbought. That's because investors seem to be crowding into a sector with very limited options.

Waste Connections is a rare pure play on the waste management sector, but that dominance will soon be challenged by a newcomer.

Green for Life, or GFL Environmental, which is also based in Vaughan, is moving forward with its plan to list shares on the New York and Toronto stock exchanges later this year. According to reports by *The Globe and Mail* and *Bloomberg*, the company generates \$3.5 billion in annual sales, with \$1 billion in gross profits, and could be worth \$5.12 billion after its initial public offering.

GFL would bring some much-needed competition for Waste Connections and provide investors another investment opportunity in this lucrative market.

## Bottom line

There's a pressing need for a solution to our waste problem and only a handful of companies seem to be operating in this lucrative sector at the moment. Investors have leaped on these limited opportunities and pushed the valuation of stocks like Waste Connections through the roof.

I believe investors are better off waiting for the market to mature and for valuations to adjust when new entrants, like GFL Environmental, list their shares in the near future.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:WCN (Waste Connections)
2. TSX:WCN (Waste Connections)

### PARTNER-FEEDS

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