



Why Waste Connections (TSX:WCN) Is a Solid Long-Term Pick

Description

Waste Connections ([TSX:WCN](#))([NYSE:WCN](#)) is a solid waste services management company in North America. It offers waste collection, disposal, transfer and recycling services in Canada and the United States.

Waste Connections generates 85% of sales from the U.S. and 15% from Canada. The company is valued at \$24 billion and is considered to be a domestic heavyweight. It's the [third-largest waste management company in North America](#).

Shares of Waste Connections have returned 22.5% year to date. The stock is up by an impressive 190% in the last five years.

Robust revenue growth

The two key drivers of a company's stock price are its revenue and earnings growth. Waste Connections has managed to grow sales from \$3.37 billion in 2016 to \$4.92 billion in 2018.

Analysts expect the company to post revenue of \$5.38 billion in 2019, \$5.79 billion in 2020 and \$6.19 billion in 2021.

Analysts expect WCN to improve earnings by 5.6% in 2019, 13.2% in 2020 and at an annual rate of 8.1% over the next five years. Though WCN's stock has outperformed markets in the last five years, its earnings actually fell by 2.9% in this period.

The earnings decline and acceleration in stock price since 2014 has meant that the WCN stock is trading at a premium. Waste Connections stock is trading at a forward price-to-earnings multiple of 30.4, which is expensive.

Focus on inorganic growth

Waste Connections has also looked at inorganic growth via acquisitions to expand revenue. In the first two quarters, Waste Connections acquired companies that will add \$160 million in annualized revenue.

Waste Connections expects its strength in solid waste pricing, positive volume trend and EBITDA margin expansion in solid waste collection, disposal, and transfer will help drive revenue and bottom line for the rest of 2019. The company is also confident of achieving its free cash flow target of \$950 million for 2019.

The verdict

Due to the stock's high valuation metrics, investors can expect the stock to correct in a downturn. WCN will announce its June quarter earnings on October 28 after the market closes.

Analysts estimate the company to post revenue of \$1.41 billion with earnings of \$0.71. Revenue or earnings miss by WCN will send the stock lower.

However, investors also need to buy this stock on every major dip. It has solid fundamentals and a strong balance sheet.

Though the company's forward dividend yield stands at 0.73%, it's estimated to rise to 0.95% by 2021. While WCN has increased dividends per share from \$0.41 in 2016 to \$0.58 in 2018, analysts expect the company to increase dividends per share to \$0.86 by 2021.

During the company's second quarter earnings call, CFO Mary Anne Whitney stated, "We anticipate announcing another double-digit percentage increase in our quarterly cash dividend in October, and we are completing the annual renewal of our normal course issuer bid, which authorizes a repurchase of up to 5% of our outstanding shares."

Waste Connections is recession-proof, as its services will be required across economic cycles. The stock has a beta of 0.56, which provides investors with some buffer during volatile stock market movements.

Analysts tracking Waste Connections have a 12-month average target price of \$101.21, which is 10.7% above its current price.

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