



This Company Is Pure Garbage — Buy It!

Description

The garbage space is a wonderful one to be in (in polite terms, waste management). This is a sector which [I've discussed in the past](#) as one with great growth potential, despite the fact that many investors may overlook the companies that handle our garbage due to a perception that this is an outdated, tired sector incapable of innovation and growth. In my opinion, nothing could be further from the truth.

The company I'm going to focus on today is **Waste Connections** ([TSX:WCN](#))([NYSE:WCN](#)). Waste Connections is one of the biggest players in North American waste management, and has built a robust network of users across the country, both residential as well as commercial/industrial.

This is the first, and perhaps most important, aspect of Waste Connection's business model I'd like to touch on, as it's a key long-term motivating factor for investors such as myself. Investors in Waste Connections today will be able to reap the benefits of a robust client network which took years to build.

In positive economic times, the company's commercial and industrial business will boom, providing accretive earnings and higher margins, as the marginal cost of two bins of garbage vs. one is not a linear relationship. For those who are bullish on the North American economy, this is great news.

For those who think the world is going to end, Waste Connections is still a great option, because no matter what, garbage will continue to be generated, by commercial, industrial and residential customers.

Speaking of residential customers, this is a segment which has proven to be quite "sticky" in the sense that once a homeowner has picked a garbage company, he/she is unlikely to shop around or look elsewhere- it is what it is.

These are key long-term success factors for companies like Waste Connections, that don't have to spend much at all in the way of marketing, keeping SG&A costs low.

From a growth perspective, I like the fact that the North American waste management industry remains relatively fragmented, as it provides regional opportunities for a company like Waste Connections to make acquisitions to grow its footprint across North America, and particularly the U.S. market.

Waste Connections has an excellent balance sheet, and has been putting its cash to work of late, acquiring other smaller regional players in an effort to grow its footprint and retain these “sticky” customers without sacrificing margins through something silly like a price war with competitors.

Waste management, for this reason, is one of the industries I believe benefits the most from a “growth by acquisition” strategy, like the one imposed by Waste Connections.

Bottom Line

I believe that plenty of growth lies ahead for Waste Connections shareholders, given the fundamentals of this industry right now.

In the fourth quarter of last year alone, Waste Connections made four acquisitions, and is likely to keep up this pace over time, as each acquisition provides the potential for the company’s management team to implement best practices and improve the acquired company’s efficiency metrics like Return on Equity (ROE) and Return on Invested Capital (ROIC) over time.

Stay Foolish, my friends.

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