



These 2 Garbage Companies Are Attractive Buys Today

Description

Picking up trash is not my idea of a good time.

However, it turns out taking out the trash is quite profitable. Companies like **GFL Environmental** ([TSX:GFL](#)) and **Waste Connections** ([TSX:WCN](#))([NYSE:WCN](#)) have seen their share prices soar of late.

Here's more on why investors seem so bullish on these companies right now.

Growth-by-acquisition strategy is a proven winner for GFL

Adopting a growth-by-acquisition strategy has proved to be instrumental for many businesses. And GFL is no exception.

The company has continued to take an aggressive approach when it comes to acquisitions. It recently announced it would be taking over **Terrapure Environmental**, a Burlington-based waste management company, for \$927 million. The latter owns over 500 vehicles and has a workforce comprising approximately 1,600 workers. Furthermore, Terrapure generated a revenue of roughly \$365 million in 2020.

This acquisition will enable GFL to acquire more customers and become one of the most dominant waste management companies in North America. Moreover, the acquisition will allow GFL to gain control over the Stoney Creek landfill near Hamilton, which received expansion approval for the following 14 years. Nevertheless, it's essential to note that the deal will not include Terrapure's battery-recycling business.

GFL revealed in a statement that this takeover would generate adjusted annual revenues of \$45 million. Since October, GFL stock price has surged over 50%, increasing the company's market capitalization to approximately \$13 billion.

Waste Connections has excellent fundamentals

In my view, Waste Connections is the [best player](#) in this space, at least as per the company's fundamentals. Besides having an EBITDA margin of 30%, It has a free cash flow margin of 12%. No other company in Canada's waste management sector can measure up to these figures. Indeed, this company appears to have the best balance sheet among its peers.

Similar to GFL, this company follows a growth-by-acquisition strategy. It has acquired various small players in North America, which has increased the overall margins of this company. As of today, Waste Connections serves approximately six million customers throughout North America. Its customer base includes both commercial and residential clients. Since this company boasts a high customer retention rate, it doesn't need to engage in price competition with its peers. Thus, it is able to earn impressive margins in its core markets.

Yes, Waste Connections is the bigger player in the waste management space when compared to GFL. However, waste collection is a fragmented market in North America. It appears that there's ample room for two consolidators.

Bottom line

To sum it up, the highly fragmented waste management market lends value to consolidators such as GFL and Waste Connections. I believe that these two stocks are excellent options for investors who are in it for the long term.

Either company works, and owning a basket of the two isn't a bad idea. These companies are likely to continue to announce more acquisitions over time, as the industry continues to get consolidated. Owning consolidators in most industries right now has been a winning strategy as acquisition financing costs remain near record-lows. I don't see that changing for some time.

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TICKERS GLOBAL

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2. TSX:GFL (GFL Environmental)
3. TSX:WCN (Waste Connections)

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