



1 Recession-Proof Stock for Your Portfolio

Description

Pandemic or no, recession or otherwise, people and industries are going to generate waste. And someone is going to have to clean it up. That someone in Canada is **Waste Connections** ([TSX:WCN](#))([NYSE:WCN](#)), North America's third-largest solid waste company.

A look at Q1 numbers

Waste Connections [reported its results](#) for the first quarter of 2021, which ended on March 31, and the numbers were good. Revenue came in at \$1.39 billion, up 3.3% from \$1.35 billion in the prior-year quarter. Adjusted EBITDA was \$433.2 million in Q1 of 2021 compared to \$408.5 million in Q1 of 2020.

Net income was \$160.3 million compared to \$143 million in March 2020. Waste Connections earned \$0.70 per share in the first quarter, up 7.7% from \$0.65 per share in March 2020. Estimates for Waste Connections were an EPS of \$0.66 on revenue of \$1.37 billion.

Net cash from operations was \$400.4 million and the adjusted free cash flow was \$289.8 million, or 20.8% of the revenue, which was up 22.9% year over year. The company is comfortably placed to exceed its minimum full-year adjusted free cash flow outlook of \$950 million that it communicated in February.

What's next for investors?

The company is confident of beating its performance in Q2 as well. Waste Connections said it expects its revenue in Q2 to be approximately \$1.49 billion. It expects solid waste price plus volume growth of approximately 10% in Q2, with volume growth of over 5%. Adjusted EBITDA in Q2 is estimated to be approximately \$468 million, or 31.4% of revenue.

For the whole of 2021, the company has provided revenue guidance of \$5.8 billion. Adjusted EBITDA is expected to come in at \$1.8 billion, up 7.4% compared to 2020 and adjusted EBITDA margin is seen at 31%, up 50 basis points from 2020. Adjusted free cash flow is forecast to be over \$950 million, up

12.8% compared to 2020.

Acquisitions are key

The above forecasts don't include any acquisitions that the company might make during the year. Acquisitions are key to Waste Management's growth strategy. It's all very well to say that the stock is recession-proof, but the real proof of a company's potential is gauged by how much it has grown every year.

And Waste Connections grows by acquiring smaller players. It made 21 acquisitions each in 2019 and 2020. The company says it will grow by 6.5% in 2021. However, when you factor in the inevitable acquisitions, considering the company has \$740 million in cash and equivalents, it wouldn't be unreasonable to see growth in double digits for 2021.

In its May 2021 presentation, it said that a "typical year represents about \$125-\$150 million of acquired revenue." To put it in context, 2020 saw \$180 million of total acquired revenue. The company is also hiring more people. In March 2021, it hired more than any month since September 2019.

Waste Connections stock has gained almost 15% in 2021 to date and more than doubled in the last five years. The company is part of an essential industry and will thrive across business cycles allowing it to generate consistent and predictable cash flows. As Canada continues to expand its working population in the upcoming decade, the demand for Waste Connections services is bound to increase.

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