Waste Connections Fell Over 3% in October: Is it Time to Buy?

Description

Equity markets made a huge comeback last month, with the **S&P/TSX Composite Index** rising over 5%. The easing recession fears and the expectation that the Federal Reserve could loosen its monetary tightening measures appear to have increased investors' confidence, driving the stock prices higher.

However, **Waste Connections** (TSX:WCN) lost around 3.7% of its stock value last month, as investors shifted their focus towards value socks. Despite the fall, the company has outperformed the broader equity markets and trades 4.9% higher this year. So, should you buy the stock after the recent pullback? Before answering that question, let's look at its historical performance.

Waste Connections's financials

Waste Connections collects, transfers, and disposes of non-hazardous solid wastes. It is also involved in recycling and renewable fuel generation, with operations spread across 43 U.S. states and six provinces in Canada. Supported by the essential nature of its business, the company's total shareholders' returns have been positive for the last 18 years.

Despite the volatile environment, the company has continued its uptrend this year. Higher pricing, strong performance from its exploration and production segment, and strategic acquisitions have driven its financials. In the first six months of this year, the company's revenue and adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) grew by 18.2% and 16.4%, respectively. It also generated $973.7 million of net cash through its operating activities. Meanwhile, let's look at its growth prospects.

Waste Connections's growth prospects

Amid the demand growth, exploration and production activities have increased, thus driving the demand for Waste Connections's services. Meanwhile, the company is progressing with constructing two recycling facilities and two renewable natural gas facilities, which could become operational next year. The company has made several acquisitions this year that could boost its annual revenue by US$470 million. It is also working on other acquisitions, which could raise its annual revenue by US$225 million. Its operations look sustainable, with the average remaining life of its owned and operated landfills at 29 years.

The company also operates primarily in secondary or exclusive markets, thus facing lesser competition. So, it has been able to enjoy higher margins. The company's management has provided optimistic guidance for this year, with its revenue and adjusted EBITDA could grow by 15.8% and 14.1%. It could also generate US$1.16 billion of free cash flows this year. So, the company's growth prospects look healthy.

Meanwhile, Waste Connections will report its third-quarter earnings today after the market closes. Analysts expect the company to post revenue of US$1.87 billion, representing a year-over-year growth of 16.9%. Its earnings per share could increase by 16.9% to US$1.02.

Dividends and valuation

Given its solid cash flows, Waste Connections has rewarded its shareholders by raising its dividend by double digits for the last 11 years. Although its dividend yield stands at a low 0.5%, investors could benefit from its aggressive dividend hikes.

Meanwhile, the company currently trades at an NTM (next 12-month) price-to-earnings multiple of 32.9, which looks expensive. However, given its low-volatility business and healthy growth prospects, investors are willing to pay higher for the stock. So, considering all these factors, I believe investors should utilize the pullback in Waste Connections to accumulate the stock to reap higher returns in the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. rnanjapla

Category

1. Investing

Date
2025/06/28
Date Created
2022/11/02
Author
rnanjapla