



Why Did GFL Environmental Drop 9% Yesterday?

Description

There have been quite a few companies around the world this year that have made the news for severe scandals. **Luckin Coffee**, once touted to be the **Starbucks** of China, is likely the most well-known case of the year. The company turned to firing a number of employees, including the chief executive and chief operating officers, after a large number of transactions were found to be fake. Luckin's books accounted for an extra hundreds of millions of dollars that should not have existed.

After the Luckin incident, many retail investors swore off investing in China because of the events. However, another company soon showed that this sort of news can happen in other parts of the world as well.

In Europe, **Wirecard**, a payment processor and financial services provider was found to have been missing €1.9 billion after an external audit. Many of the company's executives were implicated in criminal proceedings. Wirecard's former CEO Mark Braun was arrested and its COO Jan Marsalek was found fleeing to Belarus.

Surely, the companies we invest in here in Canada, are safe right?

What does this company do?

Seen as one of the more [promising growth stocks](#) in Canada, **GFL Environmental** ([TSX:GFL](#))([NYSE:GFL](#)) looks primed to be a leader in the rapidly growing environmental industry. The company is a leader among environmental service providers. GFL Environmental collects, sorts, and disposes of non-hazardous materials, in addition to similar services for hazardous and non-hazardous liquids, and various infrastructure services. Its network spanned most of Canada and 23 of the American states.

Over the past four years, GFL Environmental has shown incredible revenue growth. Comparing the company's performance over the past 12 months to its total annual revenue in 2016, we can see a revenue increase of 398%. This strong growth is what had investors clamouring about the company when it went public earlier this year.

What happened yesterday?

On Tuesday, Spruce Point Capital Management, a New York-based short selling firm released a “strong sell” report. The report was 107 pages long and accused GFL Environmental of obscuring relationships with “individuals with controversial business dealings”. Certain inconsistencies within its previous financial reports were also brought to light.

This report comes as a shock to the investment community, as nine of the 12 firms covering GFL Environmental currently have “outperform” or “buy” ratings attached to the company. As of this writing, analysts see a 16% upside in GFL Environmental’s stock.

GFL Environmental’s lead independent director of the board, Dino Chiesa, gave the following response. “Spruce Point has never engaged with the company and the report is without merit”. The company attests that its management upholds the highest ethical standards. GFL Environmental continues to believe in its strategy and intends to keep creating shareholder value over the long-term.

Foolish takeaway

As of this writing, no other news has come out regarding the event. However, this does go to show that investment scandals can happen anywhere in the world. Thus, investors should not decide to invest or not invest in a certain company because it is based in a certain location. I can’t advise you to sell or buy shares of GFL Environmental.

However, if this is a company that you own or have in your watchlist, I would urge you to follow the company diligently over the next weeks.

CATEGORY

1. Investing

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2. growth stocks
3. Industrials
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5. long term growth
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TICKERS GLOBAL

1. TSX:GFL (GFL Environmental)

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