



Outperform the TSX for 5 Years With This Stock Pick

Description

In March, shares of **Waste Connections** ([TSX:WCN](#))([NYSE:WCN](#)) dropped approximately 25% amid a broad market sell off. This provided a very compelling opportunity, in my view, for aggressive investors who are willing to step into the market right now in an attempt to take advantage of volatility, which has been mostly on the downside.

Waste management fundamentals

As I've pointed out in the past, [Waste Connections is one of my top picks](#) for defensive investors right now. I definitely haven't changed my mind. Waste Connections remains one of my top picks mainly due to the nature of the waste management business as a recession-proof option.

Investors are looking for steady, predictable growth over uncertainty right now. The reality is that homeowners are very likely to continue using their garbage-collection service, no matter what. These clients are considered to be "sticky" in that they are unlikely to look for or change to another service. Once a homeowner selects a waste management service, they tend to "stick" with it.

Investors are equally unlikely to switch providers to save a few bucks. These factors make the waste management business relatively inelastic and less prone to any sort of an economic shock.

Waste Connections's value

As far as fundamentals go, Waste Connections is the most profitable garbage collection company in North America. Waste Connections has continued to grow earnings in a slow but steady fashion over time. Much of this growth has come through acquisitions. Connections is a key player in consolidating a sector that still surprisingly remains quite fragmented. The fragmentation provides opportunity for a company like Waste Connections to swoop in and continue acquiring market share, particularly if prices go down due to the current economic slowdown we're now experiencing.

Waste Connections has great long-term growth potential. The company has continued to leverage its

existing robust network of users across the country. Waste Connections has an excellent balance sheet. The company won't even have to spend heavily on marketing due to the "stickiness" of its clients, as discussed above. I believe that Waste Connections will continue making smart acquisitions and acquiring residential and commercial contracts.

One caveat

Waste Connections's business models is relatively stable in times like these. However, there is one caveat. Corporate customers that have shut down brick-and-mortar locations are therefore not producing any garbage or recycling. This will cause a short-term hit to Waste Connections's revenue.

The degree to which increased household volume particularly partially offsets these losses remains to be seen. But in general, investors can indeed expect to see some near-term earnings weakness. That said, I believe that the stability of this company's business model will result in outperformance relative to the broader TSX index over the next five years, as investors flee to safety and steer clear of energy and financials — two sectors that are overweight in Canada and therefore the TSX.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. long term growth
2. recession
3. waste management

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

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