Waste Connections, Inc. (WCN)

Updated August 4th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$179	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$46.4 B
Fair Value Price:	$134	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	08/07/2024
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	08/22/2024
Dividend Yield:	0.6%	**5 Year Price Target**	$248	**Years Of Dividend Growth:**	15
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Waste Connections is the third largest solid waste services company in North America. It provides non-hazardous waste collection, transfer and disposal services, including by rail, along with resource recovery mainly through recycling and renewable fuels generation in 44 U.S. states and six provinces in Canada. It also provides non-hazardous oil and natural gas exploration and production, waste treatment, recovery and disposal services in several basins across North America. Finally, it offers intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest. Waste Connection generated $8 billion in revenue last year, and is headquartered in Ontario, Canada.

On July 24th, 2024, Waste Connections posted its Q2-2024 results for the period ending June 30th, 2024. The company retained strong momentum on price-led organic growth in solid waste, improving operating trends and strong acquisition activity. These factors drove revenues to $2.25 billion, up 11.2% year-over-year.

Further, through continued scaling, the company's adjusted EBITDA margin came in at 32.6%, undergoing a 150 basis points expansion. Thus, adjusted net income was $320.0 million, up 22% year-over-year, exceeding revenue growth.

Moving into the Q3, management expects that the company's ongoing momentum will be sustained. They see revenues in the range of $2.275 to $2.3 billion for the year. The ongoing margin expansion should also last, with management forecasting an adjusted EBITDA margin of about 33.7%, up 120 basis points year-over-year.

Based on these numbers and ongoing performance trajectory, we continue to believe that Waste Connections will post adjusted earnings-per-share of about $4.80 in FY2024. Note that all past figures are on a GAAP basis.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.25	($0.52)	$1.07	$2.10	$2.07	$2.15	$0.78	$2.37	$3.25	$2.96	***$4.80***	***$8.84***
DPS	$0.32	$0.36	$0.41	$0.50	$0.58	$0.67	$0.76	$0.85	$0.98	$1.05	***$1.14***	***$1.92***
Shares[1]	186.3	185.2	230.3	263.7	263.7	263.8	263.2	261.2	257.4	257.6	***258.1***	***145.0***

Waste Connections has managed to grow its earnings-per-share rapidly in recent years. Growth has averaged in the double-digits, which also holds true for its dividend, now spanning 15 years of consecutive increases. The company's growth is being fueled by continuous expansion of market penetration and customer growth, as well as by upselling additional waste management services to existing clients. Strong pricing power is another excellent growth driver.

Moreover, the company pursues growth through acquisitions, targeting markets ripe for expansion or consolidation. In fact, company has spent over $5.3 billion in acquisitions. Its most recent one closed in April of this year, wherein Waste Connections bought the previously publicly-traded Secure Energy Services. With this Waste Connections got access to a portfolio of 30 energy waste treatment and disposal facilities in Western Canada to further expand its foot print.

We believe that the company's tried-and-true strategy will continue to yield strong growth in financials over time. Thus, we project annualized growth of 13% in Waste Connections' earnings-per-share and dividend-per-share through 2029.

[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	---	---	---	26.9	33.7	38.5	---	47.4	40.0	46.1	***37.4***	***28.0***
Avg. Yld.	---	---	---	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	***0.6%***	***0.8%***

Waste Connections' P/E has historically hovered at premium levels. This can be attributed to a few factors. Firstly, as a waste management company, Waste Connections benefits from unique qualities that ensure its long-term prosperity. It operates in an oligopolistic industry that has seen consistent consolidation. Along with its cash flows being powered by long-term contracts, including periodic rate hikes, investors have been willing to pay a premium for its quite predictable growth prospects. At the same time, its GAAP earnings tend to include high amortization of intangibles, further inflating the stock's P/E on paper. Moving forward, we do see the potential of a modest valuation compression from here as the company matures, but still expect a premium price tag. The dividend yield is quite thin, though the dividend has ample room to grow.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26%	---	38%	24%	28%	31%	97%	36%	30%	35%	***24%***	***22%***

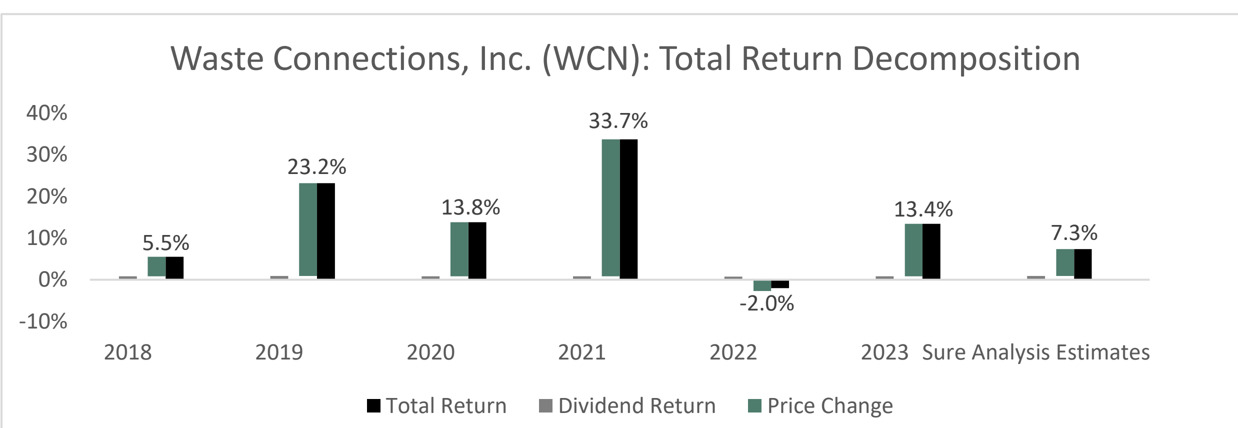
Waste Connections features several qualities. As is the case with its two larger peers, Waste Management and Republic Services, the company thrives in an oligopolistic market, having significant pricing power and facing minimal immediate competitive pressures. Further, the company aims to secure additional exclusive arrangements, leveraging franchise agreements, municipal contracts, and governmental certificates to establish barriers to entry. Along with the inherently recession-proof nature of the waste management industry, Waste Connections enjoys highly predictable cash flows.

For this reason, we believe the company's dividend is rather safe, and that there is overall little volatility involved in the company's investment case. One noteworthy risk revolves around the company's $7.9 billion net debt position. Still, it is backed by hard assets, while interest payments remain well-covered.

Final Thoughts & Recommendation

Waste Connections displays a strong track record of growth, which has translated into market-beating returns over an extended number of years. Its proven growth strategy, along with the numerous qualities attached to its business model, are likely to keep yielding strong growth. We project annualized returns of 7.3% through 2029, as strong earnings growth and any further returns from the dividend could be offset by a strong valuation headwind. Thus, the stock earns a hold rating.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,079	2,117	3,376	4,630	4,923	5,389	5,446	6,151	7,212	8,022
Gross Profit	941	940	1,418	1,926	2,057	2,190	2,169	2,497	2,876	3,277
Gross Margin	45.2%	44.4%	42.0%	41.6%	41.8%	40.6%	39.8%	40.6%	39.9%	40.9%
SG&A Exp.	229	237	474	510	524	546	538	612	696	799
D&A Exp.	258	269	464	632	680	744	752	813	919	1,003
Operating Profit	453	433	480	784	852	900	879	1,072	1,260	1,475
Operating Margin	21.8%	20.4%	14.2%	16.9%	17.3%	16.7%	16.1%	17.4%	17.5%	18.4%
Net Profit	233	(96)	247	577	547	567	205	618	836	763
Net Margin	11.2%	-4.5%	7.3%	12.5%	11.1%	10.5%	3.8%	10.0%	11.6%	9.5%
Free Cash Flow	304	338	451	708	865	874	744	954	1,110	1,193
Income Tax	152	(32)	114	(69)	160	139	50	152	213	221

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,245	5,122	11,104	12,015	12,627	13,738	13,992	14,700	17,135	17,916
Cash & Equivalents	14	11	154	434	319	327	617	147	79	78
Accounts Receivable	260	255	485	554	610	663	630	710	834	857
Inventories							37	44	55	62
Goodwill & Int. Ass.	2,204	1,934	5,457	5,769	6,160	6,674	6,882	7,538	8,576	9,008
Total Liabilities	3,012	3,130	5,449	5,741	6,167	6,799	7,129	7,706	10,021	10,218
Accounts Payable	121	115	251	331	360	437	291	393	639	642
Long-Term Debt	1,975	2,149	3,618	3,911	4,155	4,354	4,717	5,047	6,897	6,751
Shareholder's Equity	2,228	1,985	5,648	6,269	6,455	6,934	6,859	6,989	7,109	7,693
LTD/E Ratio	0.89	1.08	0.64	0.62	0.64	0.63	0.69	0.72	0.97	0.88

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.5%	-1.8%	3.0%	5.0%	4.4%	4.3%	1.5%	4.3%	5.3%	4.4%
Return on Equity	10.9%	-4.5%	6.4%	9.7%	8.6%	8.5%	3.0%	8.9%	11.8%	10.3%
ROIC	5.6%	-2.3%	3.7%	5.9%	5.3%	5.2%	1.8%	5.2%	6.4%	5.4%
Shares Out.	186.3	185.2	230.3	263.7	263.7	263.8	263.2	261.2	257.4	257.6
Revenue/Share	16.66	11.43	14.61	17.52	18.62	20.37	20.65	23.50	27.95	31.07
FCF/Share	2.43	1.83	1.95	2.68	3.27	3.31	2.82	3.64	4.30	4.62

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.