

Waste Connections Inc. (WCN)

\$92.66 (As of 05/12/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Waste Connections' shares have outperformed its industry year-to-date. The outperformance partly reflects better-than-expected earnings and revenue performance in the past three quarters. Focus on secondary and rural markets to garner a higher local market share is appreciable. The company has optimal asset positioning to generate higher profitability. Acquisitions act as a key growth catalyst. Consistency in rewarding its shareholders instill investor confidence. On the flip side, seasonality is likely to hurt the company's revenues. Stringent environmental, health and safety laws have been hindering the company's operations and raising operating costs. The company's Canadian operations exposes it to foreign currency exchange rate risks. High debt may limit the company's future expansion and worsen its risk profile.

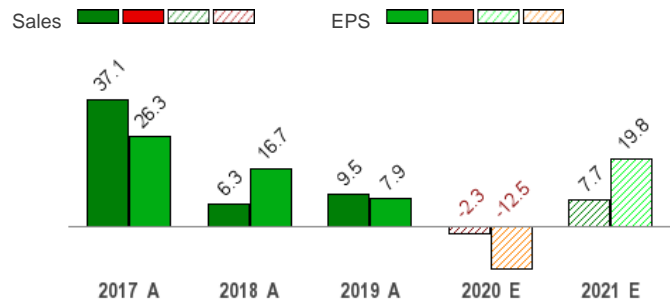
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.17 - \$70.87
20 Day Average Volume (sh)	1,071,791
Market Cap	\$24.4 B
YTD Price Change	2.1%
Beta	0.46
Dividend / Div Yld	\$0.74 / 0.8%
Industry	Waste Removal Services
Zacks Industry Rank	Bottom 43% (143 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-8.5%
Expected Report Date	08/03/2020
Earnings ESP	-6.8%
P/E TTM	33.6
P/E F1	38.9
PEG F1	5.9
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,360 E	1,504 E	1,516 E	1,468 E	5,671 E
2020	1,352 A	1,270 E	1,366 E	1,359 E	5,266 E
2019	1,245 A	1,370 A	1,412 A	1,362 A	5,389 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.73 E	\$0.78 E	\$0.74 E	\$2.85 E
2020	\$0.65 A	\$0.52 E	\$0.61 E	\$0.60 E	\$2.38 E
2019	\$0.62 A	\$0.69 A	\$0.73 A	\$0.69 A	\$2.72 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

Overview

Waste Connections is an integrated solid waste services company that provides non-hazardous waste collection, transfer, disposal and recycling services across the U.S. and Canada. The company offers non-hazardous oilfield waste treatment, recovery and disposal services in several of the active natural resource producing areas in the United States, including the Permian, Bakken and Eagle Ford Basins through its R360 Environmental Solutions subsidiary.

It serves over six million residential, commercial, industrial, and exploration and production (E&P) customers in 41 states in the U.S. and six provinces in Canada. In addition, the company provides intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest.

In 2018, Waste Connections generated \$5.39 billion (up 9.5% year over year) in revenues. The company manages its operations through five geographic operating segments and its E&P segment.

The **Southern** segment (22% of total revenues in 2018) is comprised of locations in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, southern Oklahoma, western Tennessee and Texas.

The **Eastern** segment (24%) comprises Illinois, Iowa, Kentucky, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, eastern Tennessee, Vermont, Virginia and Wisconsin.

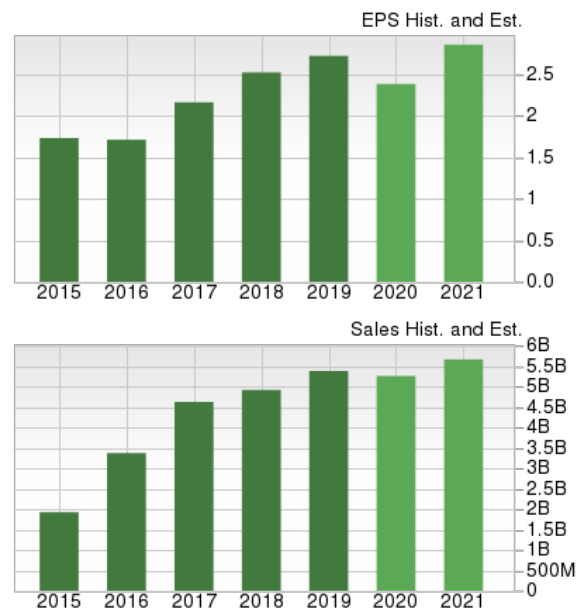
The **Western** segment (20%) comprises operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming.

The **Canada** segment (14%) serves customers located in the state of Michigan and in the provinces of Alberta, British Columbia, Manitoba, Ontario, Quebec and Saskatchewan.

The **Central** segment (15%) includes Arizona, Colorado, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota, western Texas, Utah and eastern Wyoming.

The **E&P** segment (5%) serves customers in Arkansas, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, Wyoming and along the Gulf of Mexico.

Through service line, the company generates revenues from waste collection, transfer, disposal and recycling services, non-hazardous E&P waste treatment, recovery and disposal services and intermodal services.



Reasons To Buy:

- ▲ The waste management industry stands to benefit from the growing adoption of advanced **waste collection and recycling techniques**. Increasing environmental concerns, rapid industrialization, increase in population and expected increase in non-hazardous waste as a result of rapid economic growth are expected to enhance business opportunities for the waste management companies. The companies are increasingly undertaking municipal solid waste and non-hazardous industrial waste recycling measures. Furthermore, government initiatives to introduce sustainable waste management mechanisms, reduce greenhouse gas emissions and put a check on illegal dumping are also expected to drive demand. The Environmental Protection Agency's (EPA) Resource Conservation and Recovery Act (RCRA), aimed at reducing open dumping and managing hazardous and non-hazardous waste, will significantly benefit the industry. Per a report from statista, the global waste management market is expected to reach \$530 billion in 2025, which indicates a significant upside from \$330.6 billion revenues in 2017. All these factors bode well for Waste Connections.
 - ▲ Waste Connections typically targets secondary and rural markets to garner a higher local market share, which would be difficult to attain in more competitive urban markets. This decreases the company's exposure to customer churn and helps improve financial returns. In certain niche markets, like E&P waste treatment and disposal, **early mover advantage** in certain rural basins play a key role in improving market positioning and generating higher financial returns, given the limited availability of existing third-party-owned waste disposal alternatives. The company focuses on increasing market penetration and offering additional services to capitalize on future drilling opportunities in those areas. Waste Connections also aims to leverage its franchise-based platforms to expand customer base beyond the exclusive market territories.
 - ▲ With **prime location of disposal sites** within competitive markets, Waste Connections has optimal asset positioning to generate higher profitability. Given the importance of and costs associated with the transportation of waste to treatment and disposal sites, having disposal capacity proximate to the waste stream offer a competitive advantage and serve as a barrier to entry. An experienced management team, decentralized operating strategy and financial strength remain additional tailwinds.
 - ▲ Waste Connections generally focuses on providing vertically integrated services, from collection through disposal of solid waste in landfills that it owns or operates. In addition, the operations are managed on a decentralized basis to place decision-making authority close to the customer, enabling it to identify and address customers' needs on a real-time basis in a cost-effective manner. This **low-overhead, highly-efficient operational structure** allows it to expand into geographically contiguous markets and operate in relatively small communities that other competitors may not find attractive.
 - ▲ Waste Connections has been **active on the acquisition front**. It follows a strategic combination of financial, market and management criteria to evaluate opportunities from acquisitions. In new markets, it uses its initial buyout as an operating base and seeks to strengthen the acquired operation's presence by providing additional services, adding customers and making "tuck-in" acquisitions of other waste companies in that market or adjacent markets. In 2019, the company completed the purchase of 21 individually immaterial non-hazardous solid waste collection, recycling, transfer and disposal businesses. Previously, the company completed 20 acquisitions in 2018, 14 in 2017 and 12 in 2016. Some of the notable acquisitions include that American Disposal Services and certain affiliates, Groot Industries and Progressive Waste.
 - ▲ We are also impressed with Waste Connections' **endeavours to reward its shareholders**. In 2019, the company paid \$175.1 million of dividend. In 2018, Waste Connections paid \$152.5 million of dividend and repurchased shares worth \$58.9 million. In 2017, and 2016, the company returned \$131.9 million and \$92.5 million to its shareholders, respectively, through dividend payment. Such shareholder-friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instil investors' confidence but also positively impact earnings per share.
 - ▲ Waste Connections' **shares have gained** 2.1% year-to-date against the industry's loss of 24.1%. The price performance partly reflects better-than-expected earnings and revenue performance in the past three quarters.
-

Operational efficiency and buyouts act as key growth catalysts for Waste Connections.

Reasons To Sell:

- ▼ Waste Connections' **revenues are highly seasonal in nature** with first-quarter revenues being the lowest. While revenues rise in the second and third quarters, fourth-quarter revenues are lower than the prior two quarters. The expected revenue fluctuation between the highest and lowest quarters due to seasonality is around 12%. This is mainly due to lower volume of solid waste generated during winter and early spring owing to comparatively lesser construction and demolition activities and reduced E&P activity. Severe cold weather conditions further slow down waste collection activities, resulting in higher labor and operational costs. The seasonality is also attributable to lower drilling programs and lower volumes of E&P waste during mild winter conditions. All these seasonal factors lower predictably in revenue generation and increase operating risks.
- ▼ Over the years, **stringent environmental, health and safety laws** and regulations have severely hindered operations and increased operating costs of the company. In addition, the industry is subject to regular enactment of new or amended federal, state and local statutes and regulations that further impose substantial capital and operational limitations. The barriers to entry into the regulated waste collection and disposal business are also very low. Competitors often resort to aggressive pricing to gain higher market share. This capital-intensive industry further includes larger and better capitalized companies, which affect its ability to invest in substantial labor and capital resources. All these factors erode the profitability of the company and compress its margins.
- ▼ While delivering environmental and waste management services, Waste Connections remains exposed to multiple operational risks such as truck accidents, equipment defects, malfunctions and failures. Operating fueling stations and landfill gas collection and control systems involves additional risks of fire and explosion. Moreover, the company's operations in Canada expose it to **risks associated with foreign currency exchange rate fluctuations and uncertainty from monetary devaluation**. Notably, the company incurred foreign currency translation loss of \$1.4 million in 2018 and \$2.2 million in 2017.
- ▼ Waste Connections has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$5.25 billion, up from \$4.44 billion at the end of the prior quarter. The debt-to-capital ratio of 0.44 is higher than the previous quarter's 0.39. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$1.19 billion at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$54 million.

Seasonality, high debt, foreign exchange risks and stringent regulatory norms weigh on Waste Connections.

Last Earnings Report

Waste Connections Surpasses Q1 Earnings Estimates, Revenues Miss

Waste Connections reported mixed first-quarter 2020 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of 65 cents per share beat the consensus estimate by 3.2% and increased 4.8% year over year. Revenues of \$1.35 billion however missed the consensus mark marginally but improved 8.7% year over year.

So far this year, shares of Waste Connections have gained 3% against 22.9% decline of the industry it belongs to

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.03%
EPS Surprise	3.17%
Quarterly EPS	0.65
Annual EPS (TTM)	2.76

Revenues by Segment

Solid Waste Collection segment revenues increased 9.4% year over year to \$985.61 million. The segment accounted for 72.9% of total revenues.

Solid Waste Disposal and Transfer segment revenues increased 7.9% from the year-ago quarter to \$259.92 million. The segment contributed 19.2% to total revenues.

E&P Waste Treatment, Recovery and Disposal segment revenues decreased 5.9% from the year-ago quarter to \$59.35 million. The segment contributed 4.4% to total revenues.

Intermodal and Other segment revenues declined 7.1% to \$29.98 million. The segment accounted for 2.2% of total revenues.

Solid Waste Recycling segment revenues declined 9% year over year to \$17.56 million. The segment accounted for 1.3% of total revenues.

Operating Results

Adjusted EBITDA in the reported quarter was \$408.52 million compared with \$385.71 million in the year-ago quarter. Adjusted EBITDA margin came in at 30.2% compared with 31% in the year-ago quarter.

Operating income totaled \$216.96 million compared with \$184.86 million in the year-ago quarter. Operating margin was 16% compared with 14.9% in the year-ago quarter.

Balance Sheet and Cash Flow

Waste Connections exited first-quarter 2020 with cash and cash equivalents of \$326.74 million compared with \$303.78 million at the end of the prior quarter. Long-term debt was \$4.35 billion compared with \$4.04 billion at the end of the prior quarter.

The company generated \$369.59 million of cash from operating activities in the reported quarter. Adjusted free cash flow was \$235.72 million. Capital expenditure totaled \$137.78 million.

Waste Connections paid out dividend of \$48.02 million in the reported quarter.

2020 View

Considering the current uncertainty prevailing in the market on the back of coronavirus outbreak, Waste Connections suspended its full-year 2020 guidance. The company plans to update its full-year guidance during its second-quarter 2020 results.

Recent News

On **Apr 23, 2020**, Waste Connections' board of directors declared a regular quarterly cash dividend of 18.5 cents per share. The dividend will be paid on May 19 to shareholders of record on May 5.

Valuation

Waste Connections shares are up 2.1% in the year-to-date period but down 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 24.1% and 12.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21.6% and 5.5%, respectively.

The S&P 500 index is down 11% in the year-to-date period but up 1% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 16.01X, which compares to 9.14X for the Zacks sub-industry, 10.7X for the Zacks sector and 10.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.03X and as low as 7.89X, with a 5-year median of 16.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99.00 price target reflects 38.37X forward 12-month earnings.

The table below shows summary valuation data for WCN.

Valuation Multiples - WCN					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	16.01	9.14	10.7	10.39
	5-Year High	33.03	12.29	13.33	12.86
	5-Year Low	7.89	8.29	8.53	8.28
	5-Year Median	16.39	10.32	10.47	10.77
P/E F 12M	Current	35.91	31.72	26.97	20.76
	5-Year High	36.30	31.72	26.97	20.79
	5-Year Low	16.09	20.02	18.68	15.19
	5-Year Median	28.22	23.4	20.69	17.45
P/S F12M	Current	4.51	2.3	3.68	3.24
	5-Year High	6.6	2.51	3.94	3.44
	5-Year Low	1.18	1.72	3.05	2.54
	5-Year Median	3.8	2.09	3.57	3.02

As of 05/11/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (143 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Advanced Disposal Services Inc (ADSW)	Neutral	3
Covanta Holding Corporation (CVA)	Neutral	3
Casella Waste Systems Inc (CWST)	Neutral	3
US Ecology Inc (ECOL)	Neutral	3
Republic Services Inc (RSG)	Neutral	3
Stericycle Inc (SRCL)	Neutral	4
Waste Management Inc (WM)	Neutral	3
Clean Harbors Inc (CLH)	Underperform	5

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	WCN	X Industry	S&P 500	CLH	SRCL	WM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	4	3
VGM Score	D	-	-	C	D	C
Market Cap	24.36 B	501.72 M	19.25 B	2.74 B	4.66 B	41.49 B
# of Analysts	9	4	14	4	4	8
Dividend Yield	0.80%	0.00%	2.21%	0.00%	0.00%	2.22%
Value Score	D	-	-	D	D	C
Cash/Price	0.05	0.07	0.06	0.17	0.01	0.07
EV/EBITDA	17.70	9.29	11.70	7.50	29.09	12.28
PEG Ratio	5.85	3.20	2.61	NA	3.20	3.04
Price/Book (P/B)	3.64	1.69	2.61	2.27	2.04	6.17
Price/Cash Flow (P/CF)	16.63	8.44	10.36	6.53	6.26	11.74
P/E (F1)	38.95	33.95	19.13	55.45	25.56	25.72
Price/Sales (P/S)	4.43	1.43	1.96	0.78	1.43	2.68
Earnings Yield	2.57%	1.81%	5.00%	1.81%	3.92%	3.89%
Debt/Equity	0.78	1.10	0.75	1.51	1.24	1.94
Cash Flow (\$/share)	5.57	0.59	7.01	7.54	8.14	8.38
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	12.97%	12.97%	10.82%	26.20%	-9.04%	14.56%
Proj. EPS Growth (F1/F0)	-12.46%	-14.76%	-10.31%	-53.04%	-24.72%	-13.13%
Curr. Cash Flow Growth	8.62%	9.79%	5.83%	9.79%	-27.67%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	28.79%	5.98%	8.52%	-3.62%	9.45%	6.90%
Current Ratio	1.98	1.32	1.27	2.26	1.47	1.84
Debt/Capital	43.70%	54.09%	44.25%	60.20%	55.45%	65.95%
Net Margin	10.63%	-3.02%	10.59%	3.10%	-10.08%	10.87%
Return on Equity	10.71%	4.08%	16.33%	9.46%	9.80%	27.69%
Sales/Assets	0.40	0.50	0.55	0.86	0.50	0.57
Proj. Sales Growth (F1/F0)	-2.27%	-2.98%	-2.53%	-9.00%	-18.39%	-6.01%
Momentum Score	F	-	-	F	F	B
Daily Price Chg	-0.98%	0.00%	-2.55%	-5.89%	-1.64%	-2.18%
1 Week Price Chg	10.39%	1.13%	3.23%	3.41%	13.06%	2.81%
4 Week Price Chg	8.95%	0.00%	-0.84%	-9.46%	1.31%	-1.32%
12 Week Price Chg	-11.47%	-20.46%	-21.82%	-43.22%	-20.46%	-22.11%
52 Week Price Chg	-0.08%	-47.94%	-10.27%	-27.81%	3.30%	-7.48%
20 Day Average Volume	1,071,791	48,229	2,520,117	483,389	626,244	2,198,416
(F1) EPS Est 1 week change	-2.50%	0.00%	0.00%	0.00%	-26.55%	5.16%
(F1) EPS Est 4 week change	-8.54%	-8.32%	-6.29%	-58.61%	-29.20%	-3.53%
(F1) EPS Est 12 week change	-19.22%	-59.49%	-16.21%	-61.08%	-33.90%	-18.19%
(Q1) EPS Est Mthly Chg	-14.18%	-18.20%	-12.28%	-96.88%	-61.32%	-9.90%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.