

Waste Connections Inc. (WCN)

\$78.19 (As of 03/20/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

We appreciate Waste Connections' focus on secondary and rural markets to garner a higher local market share. The company has optimal asset positioning to generate higher profitability. An experienced management team, decentralized operating strategy and financial strength remain additional tailwinds. Acquisitions act as a key growth catalyst. The company is consistent in rewarding its shareholders. However, 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. Due to these headwinds, the company's shares have declined over the past year.

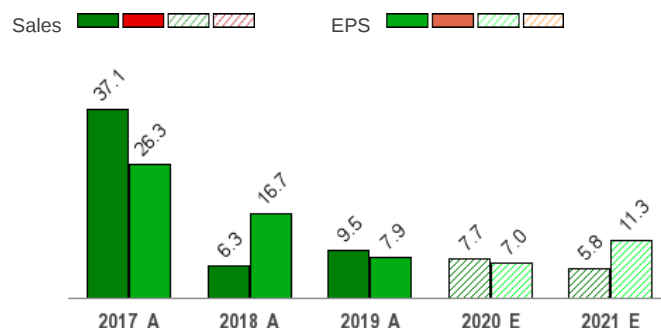
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.17 - \$73.99
20 Day Average Volume (sh)	2,062,581
Market Cap	\$20.6 B
YTD Price Change	-13.9%
Beta	0.12
Dividend / Div Yld	\$0.74 / 0.9%
Industry	Waste Removal Services
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.3%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	28.6
P/E F1	26.9
PEG F1	2.2
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,436 E	1,552 E	1,579 E	1,512 E	6,142 E
2020	1,360 E	1,480 E	1,507 E	1,451 E	5,805 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	\$0.72 E	\$0.83 E	\$0.87 E	\$0.80 E	\$3.24 E
2020	\$0.65 E	\$0.74 E	\$0.79 E	\$0.73 E	\$2.91 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 03/20/2020. The reports text is as of 03/23/2020.

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.

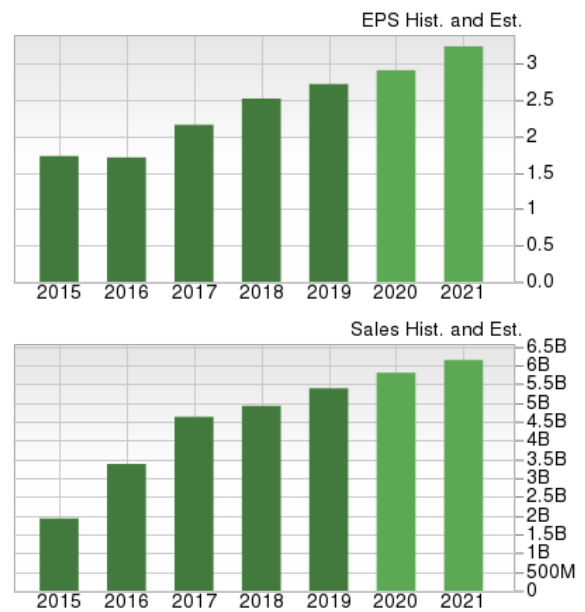
The **Western** segment (20%) comprises operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming.

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 the form of dividend payments. 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.

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' **balance sheet is highly leveraged**. As of Dec 31, 2019, long-term debt was \$4.35 billion while cash and cash equivalents were \$326.74 million. Such a cash position implies that Waste Connections needs to generate adequate amount of operating cash flow to service its debt. High debt may limit the company's future expansion and worsen its risk profile. Due to these headwind, the company's shares have declined 9.4% over the past year.

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

Last Earnings Report

Waste Connections Beats on Q4 Earnings

Waste Connections reported solid fourth-quarter 2019 results, wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of 69 cents per share beat the consensus estimate by 11.3% and increased 9.5% year over year. Revenues of \$1.36 billion beat the consensus mark by 1.5% and improved 7.9% year over year.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	1.53%
EPS Surprise	11.29%
Quarterly EPS	0.69
Annual EPS (TTM)	2.73

Revenues by Segment

Solid Waste Collection segment revenues increased 11.4% year over year to \$972.39 million. The segment accounted for 71.4% of total revenues.

Solid Waste Disposal and Transfer segment revenues increased 4.9% from the year-ago quarter to \$283.37 million. The segment contributed 20.8% to total revenues.

E&P Waste Treatment, Recovery and Disposal segment revenues decreased 2.3% from the year-ago quarter to \$62.48 million. The segment contributed 4.6% to total revenues.

Intermodal and Other segment revenues declined 9.1% to \$30.52 million. The segment accounted for 2.2% of total revenues.

Solid Waste Recycling segment revenues declined 69.6% year over year to \$13.20 million. The segment accounted for 1% of total revenues.

Operating Results

Adjusted EBITDA in the fourth quarter was \$419 million compared with \$397.19 million in the year-ago quarter. Adjusted EBITDA margin came in at 30.8% compared with 31.5% in the year-ago quarter.

Operating income totaled \$194.18 million compared with \$199.98 million in the year-ago quarter. Operating margin was 14.3% compared with 15.8% in the year-ago quarter.

Balance Sheet and Cash Flow

Waste Connections exited fourth-quarter 2019 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 \$355.12 million of cash from operating activities in the reported quarter. Adjusted free cash flow was \$153.84 million and capital expenditures totaled \$200.88 million.

Waste Connections paid out dividend of \$48.72 million in the reported quarter.

2020 Outlook

Waste Connections unveiled its guidance for 2020. The company expects revenues in the range of \$5.725-\$5.775 billion.

Adjusted EBITDA is expected in the range of \$1.760-\$1.785 billion (indicating 30.7%-30.9% of revenues). Net cash provided by operating activities is anticipated to be \$1.600-\$1.625 billion. Capital expenditures are expected at \$625 million. Adjusted free cash flow is expected to be \$975.0 million-\$1.0 billion.

Recent News

On **Feb 12, 2020**, Waste Connections declared a regular quarterly cash dividend of \$0.185 per share. The dividend will be paid on Mar 12 to shareholders of record on Feb 27.

On **Oct 28, 2019**, Waste Connections' board of directors declared a 15.6% dividend hike, raising the quarterly cash dividend from 16 cents per share to 18.5 cents. The dividend will be paid on Nov 26, 2019, to shareholders of record on the close of business on Nov 12, 2019.

Valuation

Waste Connections shares are down 9.4% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are down 12.4%, 20.9% and 18.2%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 26.2X, which compares to 20.96X for the Zacks sub-industry, 17.28X for the Zacks sector and 13.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.03X and as low as 16.09X, with a 5-year median of 28.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82.00 price target reflects 27.51X forward 12-month earnings.

The table below shows summary valuation data for WCN.

Valuation Multiples - WCN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12 M	Current	26.2	20.96	17.28	13.75
	5-Year High	35.03	26.88	25.12	19.34
	5-Year Low	16.09	19.88	17.28	13.75
	5-Year Median	28.11	22.51	20.47	17.42
P/S F12M	Current	3.51	2.3	2.74	2.5
	5-Year High	6.6	2.45	3.94	3.43
	5-Year Low	1.18	1.69	2.74	2.5
	5-Year Median	3.77	2.06	3.57	3
P/B TTM	Current	2.97	3.08	3.14	3.11
	5-Year High	3.98	4.15	6.68	4.56
	5-Year Low	1.27	3	3.14	2.85
	5-Year Median	3.02	3.5	5.19	3.63

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Advanced Disposal Services Inc. (ADSW)	Neutral
Clean Harbors, Inc. (CLH)	Neutral
Covanta Holding Corporation (CVA)	Neutral
US Ecology, Inc. (ECOL)	Neutral
Republic Services, Inc. (RSG)	Neutral
Stericycle, Inc. (SRCL)	Neutral
Waste Management, Inc. (WM)	Neutral
Casella Waste Systems, Inc. (CWST)	Underperform

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	WCN Neutral	X Industry	S&P 500	CLH Neutral	SRCL Neutral	WM Neutral
VGM Score	C	-	-	A	F	B
Market Cap	20.62 B	477.26 M	15.82 B	2.32 B	4.08 B	41.75 B
# of Analysts	9	5	13	5	8	8
Dividend Yield	0.95%	0.00%	2.79%	0.00%	0.00%	2.22%
Value Score	D	-	-	B	D	D
Cash/Price	0.01	0.04	0.06	0.14	0.01	0.08
EV/EBITDA	15.41	10.01	9.77	6.62	27.12	12.29
PEG Ratio	2.08	2.58	1.42	NA	1.98	2.52
Price/Book (P/B)	2.97	1.74	2.07	1.83	1.74	5.90
Price/Cash Flow (P/CF)	14.04	8.13	8.39	5.52	5.49	11.74
P/E (F1)	25.75	20.85	12.42	18.57	16.52	21.37
Price/Sales (P/S)	3.83	1.37	1.68	0.68	1.23	2.70
Earnings Yield	3.72%	4.20%	7.97%	5.38%	6.04%	4.68%
Debt/Equity	0.63	0.80	0.70	1.32	1.25	1.88
Cash Flow (\$/share)	5.57	0.59	7.01	7.54	8.14	8.38
Growth Score	B	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	11.81%	11.38%	10.85%	11.38%	-6.82%	14.53%
Proj. EPS Growth (F1/F0)	6.99%	8.44%	4.90%	18.62%	2.08%	4.55%
Curr. Cash Flow Growth	8.62%	8.62%	6.03%	9.79%	-27.67%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	28.79%	5.38%	8.55%	-3.62%	9.45%	6.90%
Current Ratio	1.12	0.93	1.23	1.95	0.93	1.97
Debt/Capital	38.79%	48.86%	42.57%	56.88%	55.53%	65.26%
Net Margin	10.52%	-0.41%	11.57%	2.86%	-10.48%	10.81%
Return on Equity	10.66%	3.82%	16.74%	8.67%	9.70%	28.14%
Sales/Assets	0.41	0.49	0.54	0.85	0.49	0.59
Proj. Sales Growth (F1/F0)	7.72%	4.55%	3.13%	3.19%	-3.41%	4.83%
Momentum Score	C	-	-	A	C	C
Daily Price Chg	-5.68%	0.00%	-4.39%	7.07%	-8.54%	-1.54%
1 Week Price Chg	-11.91%	-10.91%	-11.01%	-17.87%	-10.16%	-10.08%
4 Week Price Chg	-23.77%	-32.08%	-36.57%	-52.89%	-32.08%	-20.75%
12 Week Price Chg	-13.54%	-33.33%	-34.28%	-52.07%	-30.61%	-13.14%
52 Week Price Chg	-8.22%	-46.50%	-27.95%	-41.77%	-10.91%	-3.57%
20 Day Average Volume	2,062,581	93,861	3,981,936	761,472	935,758	3,981,936
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-2.64%	-0.85%	-1.67%	-5.85%	0.00%
(F1) EPS Est 12 week change	0.03%	-1.52%	-1.70%	-1.84%	-7.13%	-1.20%
(Q1) EPS Est Mthly Chg	0.00%	-0.72%	-0.88%	-36.07%	-0.72%	0.00%

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	C
VGM Score	C

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.

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