

## September 30, 2020

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### Return on Investment

Current Share Price	\$103.72
Target Price	\$110.00
Dividend Yield	0.71%
Holding Period Return	7%
Conviction Rating	2

### Market Profile

52-Week Range	\$71.47 - \$105.00
Market Capitalization (US\$m)	\$27,185
Net Debt (US\$m)	\$3,927
Enterprise Value (US\$m)	\$31,112
Beta (5-Year Monthly)	0.60

### Metrics

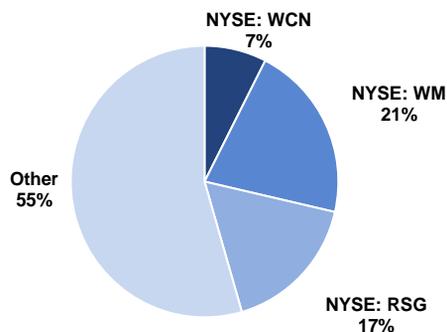
	2020E	2021E	2022E
Revenue (US\$m)	\$5,362	\$5,630	\$5,968
EBITDA (US\$m)	\$1,572	\$1,765	\$1,865
EPS	\$2.48	\$3.02	\$3.24
EV/EBITDA	19.8x	17.6x	16.7x

### Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

### Figure 1: Waste Services Industry Market Share



Source: IBISWorld

## Business Description

Waste Connections (NYSE: WCN) is the third-largest non-hazardous solid waste services company in North America. The Company provides waste collection, transfer, disposal, and recycling services in mostly exclusive and secondary markets in the U.S. and Canada. Through its R360 Environmental Solutions subsidiary, WCN is a leading provider of non-hazardous E&P waste treatment, recovery, and disposal services in several of the U.S.'s most active natural resource producing areas. Throughout 41 U.S. states and 6 Canadian provinces, WCN is committed to providing superior services to residential, commercial, industrial, and E&P customers. The Company also provides services for the rail haul movement of cargo and solid waste containers in the Pacific Northwest through a network of intermodal facilities.

## Industry Overview

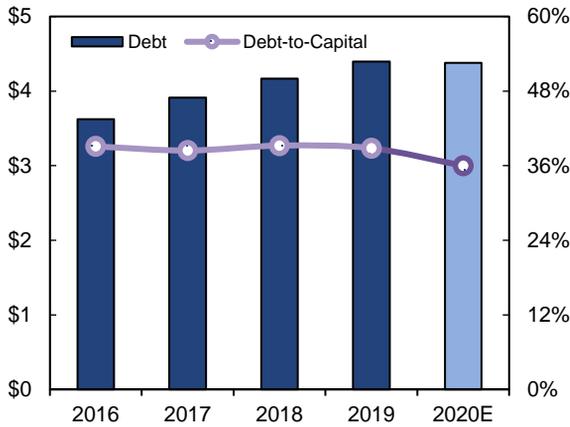
Throughout the COVID-19 pandemic, the essential nature of waste services provided resiliency relative to other industries affected by the shutdowns. Given the need to provide personal protective equipment to employees, waste service businesses saw an increase in operating costs. Additionally, the industry's local and highly competitive nature saw most companies experience a large reduction in volume in April, but have seen minor improvements as economies around the world begin to reopen. Despite the necessity of the industry's offerings, the future of the waste management industry is heavily correlated to levels of economic activity, particularly that of manufacturing and industrial production. As of August 2020, U.S. industrial production had risen for four consecutive months. Even with steady growth in production levels, a resurgence in lockdowns has the potential to derail the progress made within the industry and take companies back to April levels.

Major industry competitors include Nuverra Environmental Solutions (NYSE: NES), Republic Services (NYSE: RSG), and Waste Management (NYSE: WM). Competition for collection accounts is primarily based on price while landfill accounts are based on tipping fees, geographic locations, and quality of operations.

## Competitive Advantage

WCN seeks to avoid competitive urban markets by focusing on providing quality waste management services to smaller rural markets. Within these markets, the Company is able to hold a high market share through exclusive contracts, vertical integration, and asset positioning, which in turn reduces customer churn rates. By maintaining exclusive contracts to hold collection services, WCN maximizes operating efficiency by controlling waste streams. Contrary to its waste management operations, the Company targets competitive urban markets for the locations of its disposal sites. By having disposal capacity close to waste streams, the Company can minimize the costs of transporting waste to disposal sites. Finally, WCN manages operations on a decentralized basis, which allows the Company to identify and address customer needs in a cost-effective manner. This method of management allows WCN to succeed in rural markets that may not be attractive to competitors.

**Figure 2: Debt (US\$B) vs Debt-to-Capital Ratio**



Source: Thomson Reuters Eikon

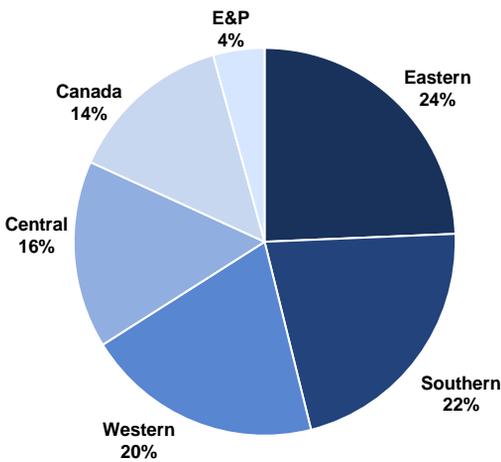
**Strong Balance Sheet**

WCN continues to hold a strong balance sheet throughout the COVID-19 pandemic. The Company increased cash on hand to US\$790.6mm from ~US\$326.7mm while raising total debt to US\$4.8B from US\$4.4B, resulting in a current net debt position of US\$4.0B. WCN’s debt-to-equity ratio jumped to 0.74x after holding an average of 0.63x for the previous three years; debt-to-capital rose to 43% after averaging 39% over the same period. WCN’s ability to maintain cash flows despite unfavourable conditions has allowed the Company to pay US\$105.6mm in share repurchases and payout US\$96.9mm in dividends throughout 2020 YTD.

**Management and Corporate Governance**

WCN’s management team is led by President and CEO Worthing F. Jackman, who has served in the role since July 2019. He succeeded Ronald J. Mittelstaedt, who transitioned to the role of Executive Chairman. Jackman took over the role after having held various positions since joining the Company in 2003, including CFO. Under his leadership, the Company has paid out US\$422.4mm in dividends and share repurchases. The current management team has emphasized expanding operations through completing acquisitions in new and existing markets by developing an acquisition discipline based on a financial, market, and management criteria to evaluate opportunities. Despite challenges from the COVID-19 pandemic, WCN remains committed to navigating the current uncertainties while continuing to work towards long-term growth. This has been exemplified by the Company’s management declaring a quarterly dividend of US\$0.19 per share. It has also renewed its normal course issuer bid, allowing the Company to repurchase up to 5% of current shares outstanding.

**Figure 3: 2019 Revenue Segments**



Source: Thomson Reuters Eikon

**Revised Valuation**

A five-year DCF with a WACC of 4.2% was used to arrive at WCN’s \$110 target price. The model consisted of a 50/50 blend of the Gordon Growth model (assuming a perpetual growth rate of 2.0%) and a peer group mean 16.0x EV/EBITDA exit multiple.

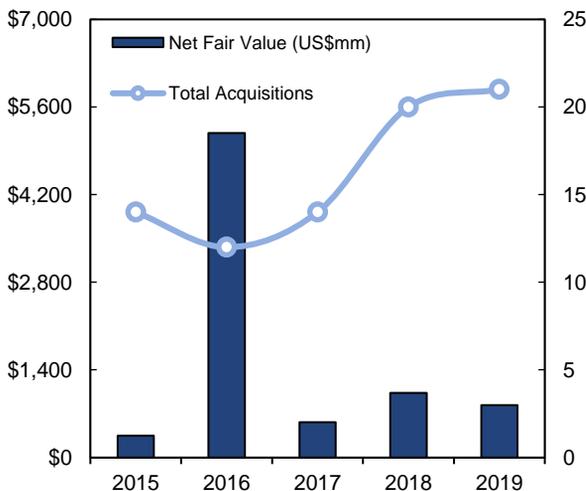
**Investment Thesis and Risks**

The CPMT’s original investment thesis was based on organic revenue growth, EBITDA expansion, and a strong management team. CPMT was further convinced on WCN’s track record in past acquisitions as well as the acquisition pipeline going forward.

WCN intends to expand its scope of operations by acquiring waste businesses in new markets. Acquisition efforts typically focus on markets where WCN can: (1) provide waste collection services under exclusive arrangements such as franchise agreements, municipal contracts, and government certificates; (2) provide vertically integrated collection and disposal services; and (3) gain a leading market position in a niche market through the provision of treatment and disposal services. WCN’s experienced management, decentralized operating strategy, and financial strength make WCN an attractive buyer for certain waste collection and disposal acquisition targets.

CPMT remains convinced on the name and the initial investment thesis as continued organic growth and a strong management team with an exceptional track record are foundational to driving value creation in terms of EBITDA expansion. Going forward, given the nature of WCN’s operations, the Company’s ability to sustain cash flows will depend on its ability to obtain operating permits to expand capacity limits and/or develop new landfills.

**Figure 4: Yearly Acquisitions Value vs Total Acquisitions**



Source: Company Filings