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A dividend stock that makes for a 'great defensive play'

By BRENDA BOUW

Investors looking to profit from the amount of garbage and recyclables piling up in North America are digging into shares of Progressive Waste Solutions Ltd.

Shares of Toronto-based Progressive, which picks up waste and recycling for residential, commercial and industrial customers across parts of the United States and Canada, are trading near record highs reached last month.

While the stock is getting expensive, many analysts believe the company will benefit from operational cost cuts and higher volumes of refuse generated by consumers and businesses in a growing economy, especially in the U.S., where Progressive does about 60 per cent of its business. One caveat is that a lower Canadian dollar will affect results of the company, which reports in U.S. currency.

“It’s a great defensive story,” said AltaCorp Capital analyst Chris Murray, who has an “outperform” (similar to “buy”) on the stock. “It’s not super sexy, it’s waste, but if you look at the company over the past three years it has been a solid performer. It won’t keep you up at night.”

Mr. Murray recently increased his price target to $41 from $40 ahead of the company’s fourth-quarter and year-end results, which are expected to be released on Thursday.

The stock is trading around $35 and hit a high just below $38 on Jan. 26, fuelled by higher growth expectations across the sector. The company pays a dividend that currently yields just under 2 per cent.

Progressive shares have increased by about 30 per cent over the past year and by around 300 per cent since the depths of the 2008-09 recession, when a drop in housing construction and consumer spending hit waste collection companies.

Veritas Investment Research analyst ***Darryl McCoubrey*** has a “buy” on three of the four big publicly traded waste companies, including Progressive, saying it “offers a compelling value proposition” for investors because of its strong free cash flow. He said the company has less exposure to contracts linked to the consumer price index, which gives it more pricing power.

“As the economy improves and volumes grow, pricing conditions in the open market should be relatively strong,” ***Mr. McCoubrey*** said.

Progressive also pays lower taxes compared with some of its peers, such as Waste Management Inc., Waste Connections Inc. and Republic Service Inc.

Among 16 analysts who cover the company, 13 have a “buy” or equivalent rating on the stock, while three say “hold,” according to S&P Capital IQ.

Octagon Capital Corp. analyst Bob Gibson recently moved to a “hold” from “buy” on Progressive, citing the impact from a lower Canadian dollar.

“Progressive Waste is the most negatively leveraged of the waste services companies in its peer group,” Mr. Gibson said in a note.

Fund managers who own Progressive have done well in recent years and aren’t ready to unload the stock just yet.

“It’s no longer a bargain stock, but their business seems to be doing well enough that there is no compelling reason to sell it,” said Michael Sprung, president and chief investment officer at Sprung Investment Management. “With the rising free cash flow there is always the possibility they could be raising dividends.”

Barry Schwartz, vice-president and portfolio manager with Baskin Financial Services, said the growing U.S. economy is a reason to own the stock. He’s also expecting the company to save more money by cutting spending and find more efficient ways to operate its fleet of waste pickup trucks.

“We could easily see stock move into the high-$30, $40 range with a good year this year,” he said.

Joseph Quarin, Progressive’s chief executive officer, said the company is expecting volume growth across most of its North American operations, with some weakness in markets more heavily affected by lower oil prices.

“We continue to feel pretty good about Canada generally,” Mr. Quarin said. “The U.S. is certainly where we’ve seen fairly healthy economic growth in the last few quarters.”