

Clean Harbors, Inc. (CLH)

\$69.48 (As of 06/08/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

Summary

High debt may limit Clean Harbors future expansion and worsen its risk profile. Global presence exposes the company to foreign currency exchange rate fluctuations. Its demand cycle is highly seasonal in nature. Partly due to these negatives, the stock has declined significantly on a year-to-date basis. On the flip side, the company focuses on improving its efficiency and lowering operating costs through enhanced technology, process efficiencies and stringent cost management. The company continues to make capital investments to enhance its quality and comply with government and local regulations. Acquisitions have been helping the company expand its business across multiple lines of services. The company's consistency in rewarding its shareholders through share buybacks, boost investor confidence and positively impact earnings per share.

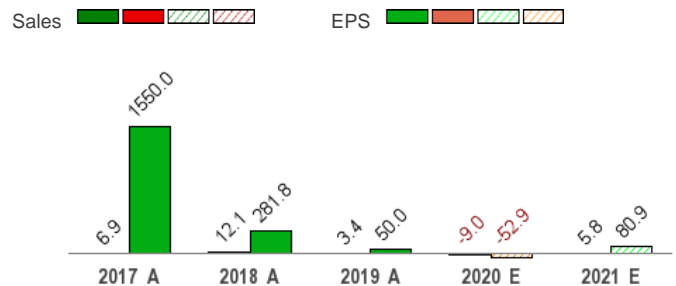
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.40 - \$29.45
20 Day Average Volume (sh)	394,767
Market Cap	\$3.9 B
YTD Price Change	-19.0%
Beta	1.53
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Waste Removal Services
Zacks Industry Rank	Bottom 31% (175 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	180.0%
Last Sales Surprise	7.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	33.4
P/E F1	78.1
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	808 E	821 E	850 E	882 E	3,286 E
2020	859 A	669 E	736 E	774 E	3,105 E
2019	781 A	869 A	892 A	871 A	3,412 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.24 E	\$0.41 E	\$0.53 E	\$0.47 E	\$1.61 E
2020	\$0.28 A	\$0.02 E	\$0.24 E	\$0.28 E	\$0.89 E
2019	\$0.09 A	\$0.66 A	\$0.72 A	\$0.42 A	\$1.89 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 06/08/2020. The reports text is as of 06/09/2020.

Overview

Headquartered in Norwell, MA, Clean Harbors, Inc. (CLH) is a leading provider of environmental, energy and industrial services in North America, wherein it operates the largest number of hazardous waste incinerators, landfills and treatment, storage and disposal facilities ("TSDFs").

The company serves a wide array of customers, which include Fortune 500 companies and government agencies. It provides a broad range of services such as end-to-end hazardous waste management, emergency response, industrial cleaning and maintenance, and recycling services. Clean Harbors is also the largest re-refiner and recycler of used oil globally and the leading provider of parts washers and environmental services to commercial, industrial and automotive customers in North America.

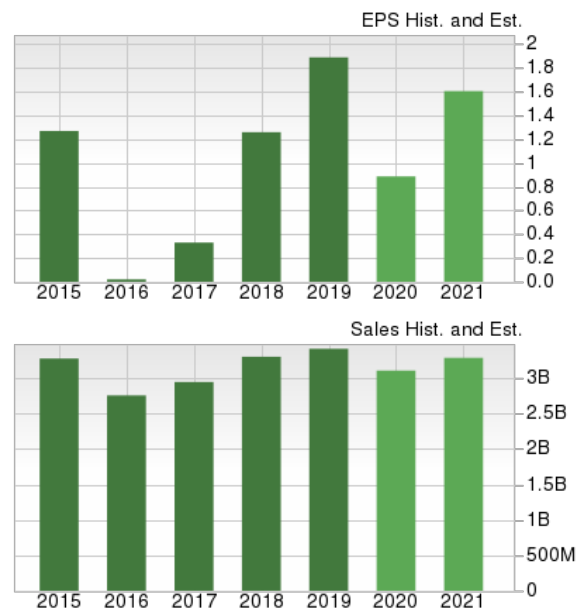
The company's strategy is to develop and maintain relationships with a diverse group of customers that seek environmental, energy or industrial services. It intends to be recognized as the premier supplier of a wide gamut of value-added services based upon quality, customer service, information technologies and cost effectiveness.

Effective Jan 1, 2018, Clean Harbors has formed a regional sales and service organization and created the Environmental Services segment. The company consolidated its historical Technical Services, Industrial and Field Services, and Oil, Gas and Lodging segments under its newly formed Environmental Services segment.

Clean Harbors now operates through the following two segments:

Environmental Services (66% of total revenues in 2019): The segment offers waste material management services, which include collection, packaging, transportation, recycling, treatment, and disposal services. It also provides industrial maintenance and specialty industrial services, and uses specialty equipment that performs field services.

Safety-Kleen (34%): This segment provides used oil collection, recycling and re-refining, parts washing and other environmental services including glass and floor cleaners, hand cleaners, degreasers, and windshield washer fluids. The segment serves industries that include repair shops, car and truck dealers, machine manufacturers, metal fabricators and fleet maintenance shops.



Reasons To Sell:

- ▼ Clean Harbors' **demand cycle is highly seasonal** in nature as customers' spending pattern is affected by weather and budgetary cycles. The company typically sees a decrease in demand for its products, oil collection, recycling and environmental services in the first quarter owing to freezing weather, mainly in the Northern and Midwestern United States and Canada. Cold weather hampers customers' activity levels. As a result, reduction in volumes of waste and higher operating costs associated with operating in sub-zero temperatures with high levels of snowfall impair the smooth functioning of the business. Factory closings for year-end holidays also reduce the volume of waste generation. All these seasonal factors lower revenue generation and increase operating risks.
- ▼ Clean Harbors is highly exposed to **foreign exchange rate risk**. The primary exposure relates to operating expenses in Canada, where a large extent of the company's manufacturing facilities are located. The lodging operations of the company are also located entirely in Canada. Notably, foreign currency translation had an unfavorable impact on the company's segmental growth during the first nine months of 2019. This might have weighed on the share price which has declined 20.8% year-to-date.
- ▼ Clean Harbors has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$1.87 billion, more than \$1.85 billion at the end of the prior quarter. Total debt to total capital ratio of 0.61 is higher than the industry's 0.58 and the previous quarter's 0.58. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$494 million 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 \$48 million.

High debt and seasonality weigh on Clean Harbors' businesses.

Risks

- Clean Harbors continues to focus on **improving its efficiency** and lowering operating costs through advanced technology, process efficiencies and stringent cost management. In 2019, the company managed internalization of maintenance costs, procurement and supply chain improvements and site consolidations to improve efficiency. Additionally, it eyes strategic investment in businesses, which are likely to increase productivity. By setting-up additional service locations near treatment, storage and disposal facilities (TSDF), the company expects to minimize capital expenditures and increase its market share. This, in turn, is likely to drive additional waste into the company's existing facilities, thereby increasing capacity utilization and enhancing overall profitability.
 - Clean Harbors continues to grow with the help of multiple **acquisitions** in both new and existing markets. In 2019, Clean Harbors acquired certain assets of a privately-owned business for \$10.4 million (to boost its Safety-Kleen segment's core service offerings) and a privately-owned business for \$14.9 million (to expand its environmental services and hazardous materials management services). In 2018, the company made two acquisitions — a privately-owned company in August and the U.S. Industrial Cleaning Business of Veolia Environmental Services North America LLC (the "Veolia Business") in February. While the privately-owned company expands Clean Harbors' environmental services and waste oil capabilities, Veolia boosts the company's U.S. Industrial Services business. The company witnessed \$154 million of direct revenues from the Veolia Business in 2018. Thus, acquisitions have been helping Clean Harbors expand its business across multiple lines of services and contributing to its top-line growth, thereby acting as key growth catalyst.
 - Clean Harbors continues to make **capital investments** to enhance its quality and comply with government and local regulations. The current regulatory requirements are cost intensive and complicated for in-house disposal facilities, which in turn compel most companies to outsource their hazardous waste disposal needs. This is where Clean Harbors steps in with its suitable disposal firms in Canada and the United States. Moreover, Clean Harbors has a diversified customer base ranging from Fortune 500 companies to midsize and small public and private entities, which provide it with stable and recurring sources of revenues. The company has been chosen as an authorized vendor by large and small generators of waste as it has comprehensive waste disposal and waste tracking capabilities.
 - We are impressed with Clean Harbors' consistent record of **returning value to shareholders** in the form of share repurchases. In 2019, 2018 and 2017, the company had repurchased shares worth \$21.4 million, \$45.1 million and \$48.9 million, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instill investors' confidence but also positively impact earnings per share.
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Last Earnings Report

Clean Harbors Beats Q1 Earnings & Revenue Estimates

Clean Harbors reported solid first-quarter 2020 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of 28 cents outpaced the consensus mark as well as the year-ago quarter by more than 100%. Total revenues of \$858.6 million beat the consensus estimate by 7.7% and increased 10% year over year on the back of solid growth across its both operating segments.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	7.73%
EPS Surprise	180.00%
Quarterly EPS	0.28
Annual EPS (TTM)	2.08

Revenues by Segment

Environmental Services revenues of \$566.36 million increased 11.3% year over year. The segment benefited from contributions from facilities network, Field Services group and warmer weather during the reported quarter.

Safety-Kleen revenues of \$293.21 million increased 7.6% year over year on the back of growth in the Safety-Kleen Oil business.

Profitability Performance

Adjusted EBITDA of \$122.6 million increased 21% year over year. Adjusted EBITDA margin increased 130 basis points (bps) year over year to 14.3%.

Segment wise, Environmental Services' adjusted EBITDA was \$108.9 million, up 21.6% year over year. Adjusted EBITDA margin improved 160 bps. The uptick was backed by business mix, disposal volumes and emergency response revenue.

Safety-Kleen's adjusted EBITDA of \$61.1 million improved 11.6% year over year and adjusted EBITDA margin improved 80 bps. The uptick was backed by lower Safety-Kleen Oil transportation costs and higher re-refining production

Balance Sheet & Cash Flow

Clean Harbors exited first-quarter 2020 with cash and cash equivalents of \$432.21 million compared with \$371.99 million at the end of the prior quarter. Inventories and supplies were \$216.53 million, up from \$214.74 million in the prior quarter. Long-term debt was \$1.70 billion compared with \$1.55 billion in the prior quarter.

The company generated \$33.7 million in cash from operating activities in the reported quarter.

During the reported quarter, the company repurchased nearly 300,000 shares for an average price of \$57.41 per share for a total of \$17.3 million.

2020 Guidance

Considering the current uncertainty prevailing in the market, Clean Harbors has withdrawn its 2020 guidance. The company expects to unveil the same during its second-quarter 2020 earnings release if markets stabilize.

Recent News

On **May 15, 2020**, Clean Harbors announced its extended partnership with NASCAR aimed at preventing infectious disease and decontamination needs. Clean Harbors is presently disinfecting and decontaminating Darlington Raceway to ensure the safety of all drivers, crew and personnel for upcoming races.

Valuation

Clean Harbors shares are down 20.8% in the year-to-date period but up 4.2% over the trailing 12-month period. Stocks in the Zacks sub-industry declined 14.7%, while those in the Zacks Business Services showed no movement in the year-to-date period. Over the past year, the Zacks sub-industry is down 15% while the sector is up 2%.

The S&P 500 index is down 1% in the year-to-date period but up 10.5% in the past year.

The stock is currently trading at 9.14X trailing 12-month enterprise value-to-EBITDA, which compares to 10.34X for the Zacks sub-industry, 12.59X for the Zacks sector and 11.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.34X and as low as 5.5X, with a 5-year median of 10.03X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$59.00 price target reflects 49.16X forward 12-month earnings.

The table below shows summary valuation data for CLH

Valuation Multiples - CLH					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.14	10.34	12.59	11.82
	5-Year High	14.34	12.32	13.34	12.85
	5-Year Low	5.5	8.62	8.53	8.25
	5-Year Median	10.03	10.32	10.51	10.8
P/E F12M	Current	57.78	34.69	30.61	23.06
	5-Year High	284.37	34.69	30.61	23.06
	5-Year Low	13.45	20.02	18.68	15.23
	5-Year Median	45.71	23.51	20.77	17.49
P/S F12M	Current	1.21	2.56	4.19	3.58
	5-Year High	1.4	2.56	4.19	3.58
	5-Year Low	0.49	1.72	3.05	2.53
	5-Year Median	1.01	2.1	3.57	3.02

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 252)



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
Waste Connections, Inc. (WCN)	Neutral	3
Waste Management, Inc. (WM)	Neutral	3
Stericycle, Inc. (SRCL)	Underperform	5

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	CLH	X Industry	S&P 500	RSG	WCN	WM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	C	C
Market Cap	3.86 B	717.77 M	23.56 B	28.59 B	25.32 B	47.91 B
# of Analysts	4	4	14	9	9	9
Dividend Yield	0.00%	0.00%	1.8%	1.80%	0.77%	1.92%
Value Score	C	-	-	B	D	C
Cash/Price	0.13	0.07	0.06	0.01	0.05	0.07
EV/EBITDA	9.58	12.07	13.19	13.26	18.30	13.81
PEG Ratio	NA	5.35	3.18	3.25	6.26	3.58
Price/Book (P/B)	3.20	2.16	3.19	3.53	3.79	7.13
Price/Cash Flow (P/CF)	9.22	9.22	12.52	13.04	17.29	13.56
P/E (F1)	74.87	37.85	23.31	32.50	41.70	30.34
Price/Sales (P/S)	1.11	1.77	2.51	2.75	4.61	3.09
Earnings Yield	1.28%	1.28%	4.15%	3.07%	2.40%	3.29%
Debt/Equity	1.51	1.10	0.76	1.10	0.78	1.94
Cash Flow (\$/share)	7.54	0.59	7.01	6.89	5.57	8.38
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	26.20%	12.97%	10.87%	13.07%	12.97%	14.56%
Proj. EPS Growth (F1/F0)	-53.04%	-15.78%	-10.76%	-17.27%	-15.07%	-14.95%
Curr. Cash Flow Growth	9.79%	4.96%	5.48%	3.25%	8.62%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	-3.62%	5.45%	8.55%	5.45%	28.79%	6.90%
Current Ratio	2.26	1.39	1.29	0.89	1.98	1.84
Debt/Capital	60.20%	54.09%	44.75%	52.44%	43.70%	65.95%
Net Margin	3.10%	-3.02%	10.59%	10.45%	10.63%	10.87%
Return on Equity	9.46%	4.08%	16.26%	13.47%	10.71%	27.69%
Sales/Assets	0.86	0.50	0.55	0.46	0.40	0.57
Proj. Sales Growth (F1/F0)	-9.00%	0.00%	-2.62%	-3.76%	-1.70%	-5.69%
Momentum Score	C	-	-	A	B	D
Daily Price Chg	2.34%	0.04%	1.55%	-0.11%	-1.98%	1.19%
1 Week Price Chg	14.31%	4.10%	7.51%	5.21%	4.50%	5.11%
4 Week Price Chg	32.87%	15.75%	15.61%	9.46%	2.93%	12.97%
12 Week Price Chg	54.47%	18.01%	38.10%	17.99%	18.72%	13.65%
52 Week Price Chg	4.21%	-28.78%	3.66%	3.74%	2.86%	-0.25%
20 Day Average Volume	394,767	83,467	2,648,536	1,176,203	869,290	2,107,995
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.29%	0.00%	-0.29%	-1.93%	-1.81%
(F1) EPS Est 12 week change	-60.42%	-59.16%	-15.97%	-21.61%	-20.95%	-18.65%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	3.33%	2.61%	0.67%

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	C
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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