

## Clean Harbors, Inc. (CLH)

**\$84.10** (As of 01/20/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

## Summary

Clean Harbors 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 repurchases, boost investor confidence and positively impact earnings per share and consequently its share price. The stock has outperformed its industry in the past year. On the flip side, high debt may limit the company's 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.

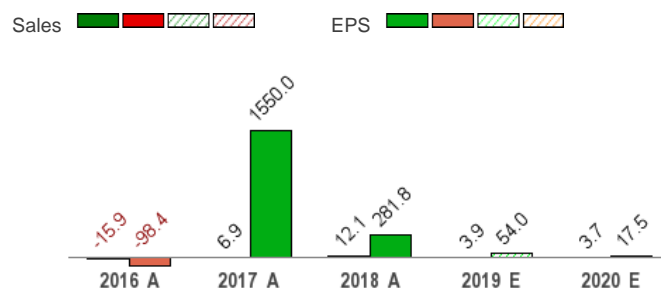
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$88.01 - \$56.14
20 Day Average Volume (sh)	315,280
Market Cap	\$4.7 B
YTD Price Change	-1.9%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Waste Removal Services</a>
Zacks Industry Rank	Top 38% (96 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.7%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	49.2
P/E F1	36.9
PEG F1	NA
P/S TTM	1.4

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	826 E	898 E	929 E	916 E	3,554 E
2019	781 A	869 A	892 A	884 E	3,428 E
2018	750 A	849 A	843 A	858 A	3,300 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.20 E	\$0.76 E	\$0.81 E	\$0.54 E	\$2.28 E
2019	\$0.09 A	\$0.66 A	\$0.72 A	\$0.44 E	\$1.94 E
2018	-\$0.12 A	\$0.54 A	\$0.59 A	\$0.24 A	\$1.26 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 01/20/2020. The reports text is as of 01/21/2020.

## 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.

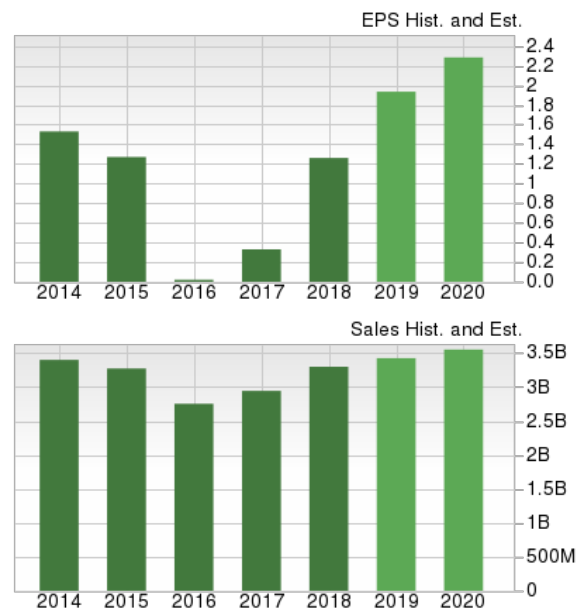
The company's strategy is to develop and maintain relationships with a diverse group of customers that seek environmental, energy or industrial services. It intends to be recognized as the premier supplier of a wide gamut of value-added services based upon quality, customer service, information technologies 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** (65% of total revenues in 2018): 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** (35%): 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 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 Clean Harbors.
- ▲ Clean Harbors continues to focus on **improving its efficiency** and lowering operating costs through advanced technology, process efficiencies and stringent cost management. In 2018, the company managed internalization of maintenance costs, procurement and supply chain improvements and branch 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. During the first nine months of 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 has completed 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. In 2017, Clean Harbors completed four acquisitions which have helped the company in multiple lines of services such as waste minimization; remodeling of its fleet of trucks, growth in daylighting and hydro excavation services markets, and complement its closed loop model in relation to the sale of oil products. The company witnessed \$154 million of direct revenues from the Veolia Business in 2018 and \$14.5 million revenues from its 2017 acquisitions. 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.
- ▲ With several facilities on the Texas gulf coast, Clean Harbors provides a broad range of services such as end-to-end hazardous waste management, emergency spill response, industrial cleaning and maintenance, and recycling services. The company has earned a name for itself as a leading emergency response firm through dedicated staff and integrated facilities. Consequently, it is expected to leverage its expansive infrastructure, specialized equipment, **capital base and customer relationships**.
- ▲ We are impressed with Clean Harbors' consistent record of **returning value to shareholders** in the form of share repurchases. During the first nine months of 2019, Clean Harbors repurchased 0.2 million shares for a total of \$16.4 million. In 2018, 2017 and 2016, the company had repurchased shares worth \$45.1 million, \$48.9 million and \$22.2 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. This might have impacted the company's share price, which has improved 46.6% over the past year, outperforming the 22.5% rise of the industry it belongs to.

Strategic capital investments with improved business efficiency, diversified service offerings and buyouts should drive Clean Harbors' prospects.

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## 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.
  - ▼ Clean Harbors' **balance sheet is highly leveraged**. As of Sep 30, 2019, long-term debt was \$1.56 billion while cash and cash equivalents were \$282.23 million. Such a cash position implies that Clean Harbors needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
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High debt and seasonality weigh on Clean Harbors' businesses.

## Last Earnings Report

### Clean Harbors Lags Q3 Earnings Estimates, Beats on Revenues

Clean Harbors reported third-quarter 2019 adjusted earnings per share of 72 cents, which lagged the consensus mark by 2 cents while improving 22% year over year. Total revenues of \$891.7 million surpassed the consensus estimate by \$21.4 million and increased 5.8% year over year.

#### Revenues by Segment

**Environmental Services** revenues of \$586.87 million increased 8% year over year on the back of growth in the company's volumes (particularly Incineration, the mix of waste that the company receives) and strength across multiple service businesses, such as Field Services.

**Safety-Kleen** revenues of \$306.15 million increased 2% year over year due to growth in the core branch offerings and pricing initiatives, which partially offset slower-than-expected blended product sales in Safety-Kleen Oil.

#### Profitability Performance

Adjusted EBITDA of \$156.61 million increased 10.9% year over year due to the company's strong business mix, pricing and higher efficiencies. Adjusted EBITDA margin increased 80 basis points (bps) year over year to 17.6%.

Segment wise, Environmental Services' adjusted EBITDA was \$121.66 million, up 18.8% year over year and adjusted EBITDA margins improved 180 bps.

Safety-Kleen's adjusted EBITDA of \$81.32 million improved 2.3% year over year and adjusted EBITDA margins improved 20 bps.

#### Balance Sheet & Cash Flow

Clean Harbors exited third-quarter 2019 with cash and cash equivalents of \$282.23 million compared with \$204.46 million at the end of the prior quarter. Inventories and supplies were \$210.83 million, up from \$203.33 million in the prior quarter. Long-term debt of \$1.56 billion was flat sequentially.

The company generated \$146.21 million in cash from operating activities in the reported quarter. Adjusted free cash flow was \$91.6 million.

During the reported quarter, the company repurchased 68,000 shares for an average price of \$75.25 per share for a total of \$5.1 million.

#### Guidance

Clean Harbors updated its 2019 guidance for adjusted EBITDA and net income while reaffirming the same for adjusted free cash flow and net cash from operating activities.

The company now expects adjusted EBITDA of \$530-550 million compared with the prior guided range of \$520-\$550 million. Segment wise, adjusted EBITDA for Environmental Services is anticipated to increase in low to mid-teens percentage. Safety-Kleen's adjusted EBITDA is expected to grow in low single-digit range.

Net income for 2019 is now anticipated in the range of \$85-\$110 million compared with the previously guided range of \$82-\$115 million.

Adjusted free cash flow is expected between \$200 and 220 million. Net cash from operating activities is projected between \$390 million and \$430 million.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	2.46%
EPS Surprise	-2.70%
Quarterly EPS	0.72
Annual EPS (TTM)	1.71

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## Recent News

On **Dec 17, 2019**, Clean Harbors announced the appointment of technology executive Robert Willett to its board of directors.

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## Valuation

Clean Harbors shares are up 46.6% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 22.5%, 30.2% and 26.5%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 11.28X, which compares to 11.35X for the Zacks sub-industry, 12.47X for the Zacks sector and 12.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.34X and as low as 5.67X, with a 5-year median of 9.99X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$90.00 price target reflects 39.13X 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	11.28	11.35	12.47	12.38
	5-Year High	14.34	12.21	12.55	12.86
	5-Year Low	5.67	8.68	8.75	8.48
	5-Year Median	9.99	10.25	10.42	10.67
P/E F 12M	Current	36.51	26.83	26.02	19.19
	5-Year High	NA	26.83	26.02	19.34
	5-Year Low	20.31	19.88	18.76	15.17
	5-Year Median	44.07	22.47	20.56	17.44
P/S F12M	Current	1.32	2.45	4.12	3.57
	5-Year High	1.4	2.45	5.13	3.57
	5-Year Low	0.74	1.69	3.09	2.54
	5-Year Median	1	2.05	3.63	3

As of 01/20/2020

## Industry Analysis Zacks Industry Rank: Top 38% (96 out of 254)



## Top Peers

Advanced Disposal Services Inc. (ADSW)	Outperform
Covanta Holding Corporation (CVA)	Outperform
Casella Waste Systems, Inc. (CWST)	Neutral
US Ecology, Inc. (ECOL)	Neutral
Republic Services, Inc. (RSG)	Neutral
Stericycle, Inc. (SRCL)	Neutral
Waste Connections, Inc. (WCN)	Neutral
Waste Management, Inc. (WM)	Neutral

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	CLH Neutral	X Industry	S&P 500	RSG Neutral	WCN Neutral	WM Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Market Cap	4.69 B	43.78 M	24.65 B	29.83 B	25.89 B	50.76 B
# of Analysts	4	4.5	13	7	7	8
Dividend Yield	0.00%	0.00%	1.73%	1.73%	0.75%	1.71%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Cash/Price	0.07	0.02	0.04	0.00	0.01	0.06
EV/EBITDA	12.39	11.62	14.11	13.30	19.72	14.11
PEG Ratio	NA	3.16	2.08	3.20	3.81	3.12
Price/Book (P/B)	3.80	3.17	3.39	3.74	3.81	7.48
Price/Cash Flow (P/CF)	12.30	12.61	13.81	14.25	19.18	15.07
P/E (F1)	36.97	29.02	19.19	26.78	33.51	25.71
Price/Sales (P/S)	1.38	1.82	2.69	2.91	4.90	3.29
Earnings Yield	2.71%	3.20%	5.21%	3.73%	2.98%	3.89%
Debt/Equity	1.36	0.95	0.72	0.97	0.63	1.94
Cash Flow (\$/share)	6.84	0.46	6.94	6.56	5.12	7.94
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	-2.43%	8.88%	10.56%	11.90%	10.68%	14.09%
Proj. EPS Growth (F1/F0)	18.04%	10.86%	7.57%	5.58%	10.51%	6.55%
Curr. Cash Flow Growth	19.58%	10.56%	14.73%	9.81%	12.02%	17.01%
Hist. Cash Flow Growth (3-5 yrs)	-0.69%	5.32%	9.00%	4.98%	26.04%	2.95%
Current Ratio	1.91	0.94	1.24	0.49	1.11	1.86
Debt/Capital	57.59%	49.13%	42.99%	49.13%	38.48%	65.95%
Net Margin	2.65%	-0.06%	11.14%	10.58%	10.70%	11.35%
Return on Equity	8.01%	4.26%	17.16%	13.13%	10.62%	28.63%
Sales/Assets	0.87	0.50	0.55	0.47	0.41	0.62
Proj. Sales Growth (F1/F0)	3.67%	4.48%	4.16%	4.35%	7.62%	4.48%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>D</b>
Daily Price Chg	-0.07%	0.00%	0.27%	-0.06%	0.50%	0.13%
1 Week Price Chg	-2.87%	0.00%	0.39%	0.75%	2.42%	0.75%
4 Week Price Chg	0.12%	1.56%	2.95%	5.24%	9.05%	6.37%
12 Week Price Chg	9.93%	5.99%	7.76%	7.56%	6.24%	5.73%
52 Week Price Chg	49.01%	-13.36%	22.29%	24.48%	24.22%	28.21%
20 Day Average Volume	315,280	70,919	1,536,375	1,009,448	590,295	1,327,362
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.33%	0.09%	0.21%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.33%	0.30%	0.21%
(F1) EPS Est 12 week change	-3.32%	-1.78%	-0.40%	-1.78%	-4.25%	-0.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.42%	0.00%	0.68%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</b>

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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