

Clean Harbors, Inc. (CLH)

\$52.00 (As of 03/26/20)

Price Target (6-12 Months): **\$55.00**

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: D

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 buybacks, boost investor confidence and positively impact earnings per share. 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. Partly due to these negatives, the stock has underperformed its industry in the past year.

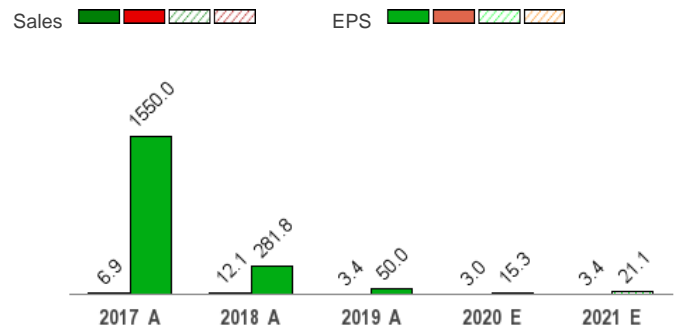
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.40 - \$29.45
20 Day Average Volume (sh)	836,334
Market Cap	\$2.9 B
YTD Price Change	-39.4%
Beta	1.61
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Waste Removal Services
Zacks Industry Rank	Top 34% (85 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.7%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-4.2%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	27.5
P/E F1	23.9
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	830 E	921 E	941 E	931 E	3,634 E
2020	808 E	889 E	917 E	897 E	3,513 E
2019	781 A	869 A	892 A	871 A	3,412 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.15 E	\$0.82 E	\$0.90 E	\$0.53 E	\$2.64 E
2020	\$0.13 E	\$0.71 E	\$0.82 E	\$0.52 E	\$2.18 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 03/26/2020. The reports text is as of 03/27/2020.

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.

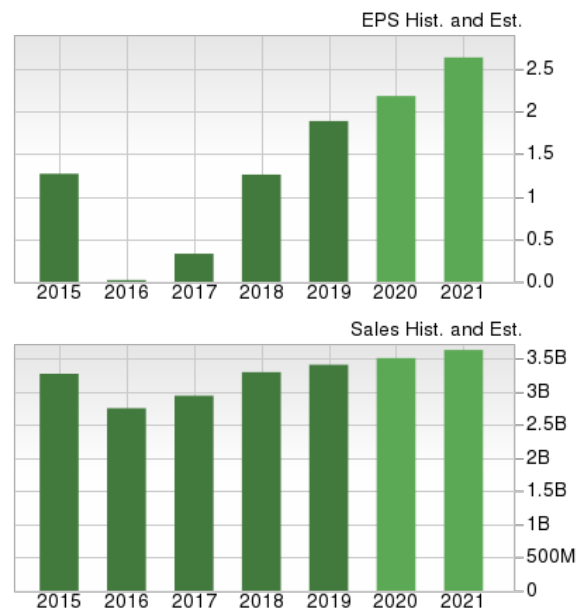
The company's strategy is to develop and maintain relationships with a diverse group of customers that seek environmental, energy or industrial services. It intends to be recognized as the premier supplier of a wide gamut of value-added services based upon quality, customer service, information technologies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

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

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 may weigh on its share price which has declined 26.4% over the past year, underperforming the 11.4% loss of the industry it belongs to.
- ▼ Clean Harbors' **balance sheet is highly leveraged**. As of Dec 31, 2019, long-term debt was \$1.55 billion while cash and cash equivalents were \$371.99 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.

High debt and seasonality weigh on Clean Harbors' businesses.

Last Earnings Report

Clean Harbors Misses Q4 Earnings & Revenue Estimates

Clean Harbors reported disappointing fourth-quarter 2019 results wherein both earnings and revenues lagged the Zacks Consensus Estimate.

Adjusted earnings per share of 42 cents lagged the consensus mark by 8.7% but improved 75% year over year. Total revenues of \$871 million missed the consensus estimate by 1.5% but increased 1.5% year over year.

Revenues by Segment

Environmental Services revenues of \$578.09 million increased 1.2% year over year. **Safety-Kleen** revenues of \$293.52 million increased 1.9% year over year.

Profitability Performance

Adjusted EBITDA of \$132.22 million increased 8.5% year over year. Adjusted EBITDA margin increased 100 basis points (bps) year over year to 15.2%.

Segment wise, Environmental Services' adjusted EBITDA was \$117.25 million, up 8.7% year over year and adjusted EBITDA margins improved 140 bps.

Safety-Kleen's adjusted EBITDA of \$66.8 million declined 1.1% year over year and adjusted EBITDA margins declined 70 bps.

Balance Sheet & Cash Flow

Clean Harbors exited fourth-quarter 2019 with cash and cash equivalents of \$371.99 million compared with \$282.23 million at the end of the prior quarter. Inventories and supplies were \$214.74 million, up from \$210.83 million in the prior quarter. Long-term debt was \$1.55 billion compared with \$1.56 billion in the prior quarter.

The company generated \$128.5 million in cash from operating activities in the reported quarter. Adjusted free cash flow was \$89.4 million.

During the reported quarter, the company repurchased 59,000 shares for an average price of \$84.28 per share for a total of \$5 million.

2020 Guidance

Clean Harbors unveiled its 2020 guidance. The company expects adjusted EBITDA of \$545-\$585 million. Segment wise, adjusted EBITDA for Environmental Services is anticipated to increase in low single-digit percentage. Safety-Kleen's adjusted EBITDA is expected to grow in the mid to high single-digit range.

Net income is anticipated to be \$104-\$147 million. Adjusted free cash flow is expected between \$210 million and \$240 million. Net cash from operating activities is projected between \$405 million and \$455 million.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-1.50%
EPS Surprise	-8.70%
Quarterly EPS	0.42
Annual EPS (TTM)	1.89

Recent News

On **Jan 21, 2020**, Clean Harbors announced that it has retained the services of Hill Holliday as its lead agency and plans to launch its first national television marketing effort.

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

Valuation

Clean Harbors shares are down 26.4% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are down 11.4%, 8.3% and 7.2%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 7.41X, which compares to 9.46X for the Zacks sub-industry, 10.35X for the Zacks sector and 9.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.34X and as low as 5.34X, with a 5-year median of 10.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55.00 price target reflects 24.62X 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	7.41	9.46	10.35	9.74
	5-Year High	14.34	12.26	13.31	12.88
	5-Year Low	5.32	8.68	8.52	8.27
	5-Year Median	10.03	10.27	10.4	10.78
P/E F 12M	Current	22.21	21.91	20.67	14.92
	5-Year High	NA	26.88	25.12	19.34
	5-Year Low	13.45	19.88	18.67	14.92
	5-Year Median	44.18	22.21	20.48	17.42
P/S F12M	Current	0.8	2.3	3.25	2.68
	5-Year High	1.4	2.45	3.94	3.43
	5-Year Low	0.49	1.69	3.05	2.54
	5-Year Median	1.01	2.06	3.57	3

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 34% (85 out of 253)



Top Peers

Advanced Disposal Services Inc. (ADSW)	Neutral
Covanta Holding Corporation (CVA)	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
Casella Waste Systems, Inc. (CWST)	Underperform

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	CLH Neutral	X Industry	S&P 500	RSG Neutral	WCN Neutral	WM Neutral
VGM Score	A	-	-	B	C	B
Market Cap	2.90 B	471.47 M	18.50 B	24.70 B	20.65 B	41.49 B
# of Analysts	5	5	13	8	9	8
Dividend Yield	0.00%	0.00%	2.35%	2.09%	0.94%	2.23%
Value Score	B	-	-	C	D	C
Cash/Price	0.18	0.04	0.07	0.00	0.02	0.09
EV/EBITDA	7.69	9.72	11.16	11.53	15.43	12.23
PEG Ratio	NA	2.89	1.74	2.89	2.92	2.59
Price/Book (P/B)	2.29	1.34	2.44	3.04	2.98	5.86
Price/Cash Flow (P/CF)	6.90	8.42	9.87	11.24	14.06	11.66
P/E (F1)	22.69	23.27	15.29	22.73	27.45	21.94
Price/Sales (P/S)	0.85	1.48	1.93	2.40	3.83	2.68
Earnings Yield	4.19%	3.92%	6.47%	4.39%	3.64%	4.56%
Debt/Equity	1.32	0.80	0.70	0.96	0.63	1.88
Cash Flow (\$/share)	7.54	0.59	7.01	6.89	5.57	8.38
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	11.38%	11.38%	10.85%	12.52%	11.81%	14.53%
Proj. EPS Growth (F1/F0)	15.56%	6.36%	2.89%	1.95%	4.90%	1.19%
Curr. Cash Flow Growth	9.79%	8.62%	5.93%	3.25%	8.62%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	-3.62%	5.98%	8.55%	5.45%	28.79%	6.90%
Current Ratio	1.95	0.93	1.23	0.52	1.12	1.97
Debt/Capital	56.88%	48.86%	42.57%	48.86%	38.79%	65.26%
Net Margin	2.86%	-0.41%	11.64%	10.42%	10.52%	10.81%
Return on Equity	8.67%	3.82%	16.74%	13.44%	10.66%	28.14%
Sales/Assets	0.85	0.49	0.54	0.46	0.41	0.59
Proj. Sales Growth (F1/F0)	2.95%	2.08%	2.37%	2.08%	5.44%	1.67%
Momentum Score	D	-	-	C	C	B
Daily Price Chg	10.08%	0.22%	6.21%	7.89%	9.58%	7.41%
1 Week Price Chg	-23.38%	-14.38%	-16.96%	-15.82%	-11.88%	-6.66%
4 Week Price Chg	-28.54%	-22.19%	-15.70%	-15.26%	-17.99%	-14.03%
12 Week Price Chg	-38.84%	-30.90%	-23.67%	-13.84%	-14.62%	-14.48%
52 Week Price Chg	-26.63%	-42.77%	-13.99%	-3.98%	-11.73%	-5.56%
20 Day Average Volume	836,334	104,522	4,286,768	2,222,463	2,545,637	4,756,608
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	-2.75%	-1.95%	-3.21%
(F1) EPS Est 4 week change	-4.21%	-4.74%	-2.28%	-3.40%	-2.36%	-3.21%
(F1) EPS Est 12 week change	-4.38%	-4.82%	-3.22%	-2.12%	-2.32%	-4.36%
(Q1) EPS Est Mthly Chg	-36.07%	-1.13%	-1.60%	-0.31%	-1.13%	-1.13%

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
Growth Score	A
Momentum Score	D
VGM Score	A

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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