

## Clean Harbors, Inc. (CLH)

**\$59.73** (As of 08/26/20)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

## 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 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.

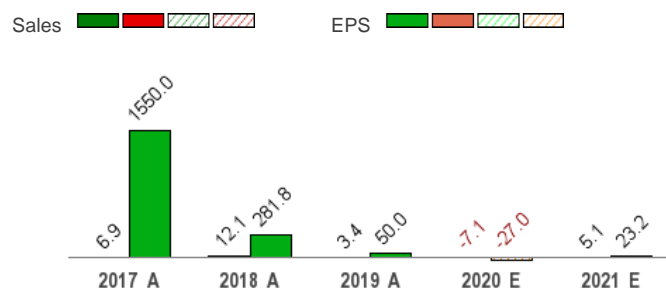
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$88.40 - \$29.45
20 Day Average Volume (sh)	229,592
Market Cap	\$3.3 B
YTD Price Change	-30.3%
Beta	1.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Waste Removal Services</a>
Zacks Industry Rank	Top 48% (120 out of 252)

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



Last EPS Surprise	1,200.0%
Last Sales Surprise	5.8%
EPS F1 Est- 4 week change	55.5%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	30.8
P/E F1	43.3
PEG F1	NA
P/S TTM	1.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	799 E	829 E	841 E	836 E	3,330 E
2020	859 A	710 A	779 E	802 E	3,169 E
2019	781 A	869 A	892 A	871 A	3,412 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.41 E	\$0.52 E	\$0.40 E	\$1.70 E
2020	\$0.28 A	\$0.52 A	\$0.28 E	\$0.27 E	\$1.38 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 08/26/2020. The reports text is as of 08/27/2020.

## 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.

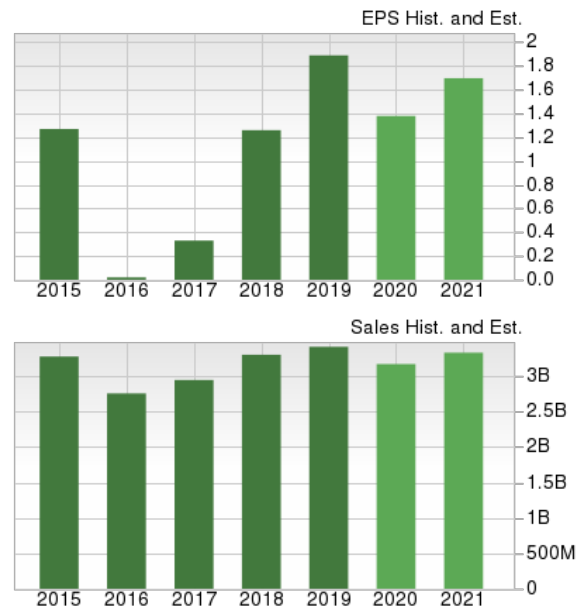
The company's strategy is to develop and maintain relationships with a diverse group of customers that seek environmental, energy or industrial services. It intends to be recognized as the premier supplier of a wide gamut of value-added services based upon quality, customer service, information technologies 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 current scenario as **proper disposal of used masks, gloves, suits, syringes and other medical equipment is of utmost importance to curb the spread of coronavirus**. Government initiatives as well as stringent rules and regulations to advance sustainable waste management mechanisms and put a check on illegal dumping are also expected to boost the industry. Rising environmental concerns, rapid industrialization, increase in population and an expected increase in non-hazardous waste as a result of rapid economic growth should enhance business opportunities for waste management companies. Growing adoption of recycling techniques, development of technologies and advanced waste collection solutions are key trends within the industry. Recycling remains a major growth area, with most industry players undertaking municipal solid waste and non-hazardous industrial waste recycling measures. Per a report by statista, the global waste management market is expected to reach \$530 billion by 2025 from \$330.6 billion in 2017, witnessing a CAGR of 6% from 2018 to 2025. 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 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.
- ▲ 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.

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## Risks

- 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 30.3% year-to-date.
  - Clean Harbors has a **debt-laden balance sheet**. The company's cash and cash equivalent of \$507 million at the end of the second quarter was well below the total debt level \$1.78 billion, underscoring that it doesn't have enough cash to meet this debt burden.
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## Last Earnings Report

### Clean Harbors Beats Q2 Earnings & Revenue Estimates

Clean Harbors reported better-than-expected second-quarter 2020 results.

Adjusted earnings per share of 52 cents outpaced the Zacks Consensus Estimate by more than 100% but declined 21.2% year over year. Total revenues of \$710 million beat the consensus estimate by 5.8% but decreased 18.3% year over year despite solid growth across both its operating segments.

Quarter Ending **06/2020**

Report Date	<b>Aug 05, 2020</b>
Sales Surprise	<b>5.76%</b>
EPS Surprise	<b>1,200.00%</b>
Quarterly EPS	<b>0.52</b>
Annual EPS (TTM)	<b>1.94</b>

### Revenues by Segment

Environmental Services revenues of \$496.91 million decreased 11.8% year over year owing to coronavirus-related slowdowns across multiple lines of business, partly offset by incineration and decontamination work.

Safety-Kleen revenues of \$214.56 million decreased 29.8% year over year owing to a slowdown in both the branch and the Safety-Kleen Oil businesses.

### Profitability Performance

Adjusted EBITDA of \$135.48 million decreased 9.6% year over year. Adjusted EBITDA margin increased 190 basis points (bps) year over year to 19.1%.

Adjusted EBITDA includes \$23.4 million of assistance from government programs.

Segment wise, Environmental Services' adjusted EBITDA was \$138.08 million, up 17.2% year over year. The uptick was backed by cost-reduction efforts, strength in the company's facilities, emergency-response revenues and the two government programs, which accounted for \$13.3 million in this segment.

Safety-Kleen's adjusted EBITDA of \$46.59 million decreased 41.4% due to the lower revenues, pricing for Oil products and costs associated with the temporary shuttering of refineries, partly offset by cost-reduction efforts, and government-assistance programs.

### Balance Sheet & Cash Flow

Clean Harbors exited second-quarter 2020 with cash and cash equivalents of \$447.37 million compared with \$432.21 million at the end of the prior quarter. Inventories and supplies were \$219.81 million, up from \$216.53 million in the prior quarter. Long-term debt was \$1.63 billion compared with \$1.70 billion in the prior quarter.

The company generated \$139.81 million in cash from operating activities in the reported quarter. During the reported quarter, the company did not repurchase any of its shares.

### 2020 Guidance

Clean Harbors unveiled its 2020 guidance. The company expects adjusted EBITDA of \$470-\$500 million. Segment wise, adjusted EBITDA for Environmental Services is anticipated to be just slightly above 2019's level of \$446 million. Safety-Kleen's adjusted EBITDA is expected to decline nearly 20% from 2019's \$282 million.

Net income is anticipated to be \$53-\$84 million. Adjusted free cash flow is expected between \$200 million and \$230 million. Net cash from operating activities is projected between \$355 million and \$405 million.

## 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 30.3% in the year-to-date period and 17.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 14.5% while those in the Zacks Business Services sector are up 2.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 14% but the sector is up 5.3%.

The S&P 500 index is up 8.1% in the year-to-date period and 21.7% in the past year.

The stock is currently trading at 8.25X forward 12-month price-to-earnings, which compares to 10.65X for the Zacks sub-industry, 13.66X for the Zacks sector and 13.09X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$69.00 price target reflects 43.45X 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	8.25	10.65	13.66	13.09
	5-Year High	14.34	12.33	13.66	13.09
	5-Year Low	5.50	8.43	8.59	8.25
	5-Year Median	10.03	10.37	10.69	10.92
P/E F 12M	Current	37.61	31.48	30.78	23.11
	5-Year High	NA	32.87	30.78	23.11
	5-Year Low	13.45	20.04	18.68	15.25
	5-Year Median	47	23.88	20.95	17.58
P/S F 12M	Current	1.02	2.49	4.28	3.77
	5-Year High	1.4	2.51	4.28	3.77
	5-Year Low	0.49	1.72	3.06	2.53
	5-Year Median	1.02	2.11	3.6	3.05

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Republic Services, Inc. (RSG)	Outperform	2
Advanced Disposal Services Inc. (ADSW)	Neutral	3
Aqua Metals, Inc. (AQMS)	Neutral	3
CONCRETE PUMPING HOLDINGS, INC. (BBCP)	Neutral	3
US Ecology, Inc. (ECOL)	Neutral	3
Sims Metal Management Ltd. (SMSMY)	Neutral	4
Stericycle, Inc. (SRCL)	Neutral	3
Waste Connections, Inc. (WCN)	Neutral	3

## Industry Comparison Industry: Waste Removal Services

	CLH	X Industry	S&P 500	ADSW	SMSMY	SRCL
<b>Zacks Recommendation (Long Term)</b>	Outperform	-	-	Neutral	Neutral	Neutral
<b>Zacks Rank (Short Term)</b>	3	-	-	3	4	3
<b>VGM Score</b>	A	-	-	A	A	B
Market Cap	3.32 B	872.79 M	23.69 B	2.73 B	1.21 B	5.78 B
# of Analysts	4	4	14	3	2	8
Dividend Yield	0.00%	0.00%	1.65%	0.00%	1.03%	0.00%
<b>Value Score</b>	A	-	-	B	A	C
Cash/Price	0.15	0.08	0.07	0.01	NA	0.01
EV/EBITDA	8.42	12.40	13.37	11.65	NA	31.36
PEG Ratio	NA	4.47	3.04	12.09	NA	4.20
Price/Book (P/B)	2.65	1.74	3.17	2.89	NA	2.51
Price/Cash Flow (P/CF)	7.93	9.37	12.78	7.81	NA	7.75
P/E (F1)	44.25	35.53	21.63	120.40	75.25	29.46
Price/Sales (P/S)	1.00	2.05	2.50	1.72	NA	1.92
Earnings Yield	2.31%	1.83%	4.44%	0.83%	1.33%	3.39%
Debt/Equity	1.39	0.90	0.75	1.86	NA	1.01
Cash Flow (\$/share)	7.54	0.46	6.94	3.85	NA	8.14
<b>Growth Score</b>	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	43.37%	12.95%	10.41%	-7.05%	NA	-10.99%
Proj. EPS Growth (F1/F0)	-26.98%	-7.39%	-4.92%	-35.90%	142.11%	-19.11%
Curr. Cash Flow Growth	9.79%	0.95%	5.22%	-1.35%	NA	-27.67%
Hist. Cash Flow Growth (3-5 yrs)	-3.62%	5.98%	8.50%	3.33%	NA	9.45%
Current Ratio	2.37	1.03	1.34	0.72	NA	0.90
Debt/Capital	58.14%	50.62%	44.18%	65.08%	NA	50.15%
Net Margin	3.04%	-5.02%	10.25%	0.02%	NA	-10.05%
Return on Equity	8.73%	4.51%	14.66%	4.90%	NA	9.73%
Sales/Assets	0.82	0.46	0.50	0.45	NA	0.48
Proj. Sales Growth (F1/F0)	-7.12%	0.00%	-1.45%	-4.61%	10.66%	-19.06%
<b>Momentum Score</b>	A	-	-	B	A	A
Daily Price Chg	-2.05%	0.00%	-0.18%	0.10%	-2.11%	-0.08%
1 Week Price Chg	-3.99%	-0.53%	-1.45%	-0.20%	-1.48%	-2.13%
4 Week Price Chg	-2.70%	4.84%	2.10%	-0.23%	5.80%	1.09%
12 Week Price Chg	-7.52%	5.16%	3.61%	-4.14%	9.45%	6.20%
52 Week Price Chg	-19.46%	-20.56%	3.61%	-7.36%	-19.63%	39.86%
20 Day Average Volume	229,592	113,229	1,883,291	993,046	20,075	343,908
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	55.49%	8.33%	0.93%	97.37%	-42.86%	13.95%
(F1) EPS Est 12 week change	55.49%	14.87%	3.41%	226.09%	144.44%	14.87%
(Q1) EPS Est Mthly Chg	14.75%	13.80%	0.00%	34.29%	NA	19.16%

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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	A
Growth Score	A
Momentum Score	A
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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