

Ecolab Inc. (ECL)

\$201.53 (As of 02/03/20)

Price Target (6-12 Months): **\$212.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

Ecolab continues to gain from its core Global Industrial and Global Institutional units. Strength in Pest Control and Colloidal technologies drove the Other segment in the quarter. Management is optimistic about the spin-off of its Upstream Energy business as a stand-alone publicly-traded company and acquisitions, which are likely to drive segmental gains in the quarters ahead. Expansion in gross and operating margins is encouraging as well. The stock outperformed the industry in a year's time. On the flip side, the Global Energy arm has been witnessing softness. Ecolab ended the third quarter on a weak note. Quarterly EPS was impacted by unfavorable currency movement. In fact, management expects foreign exchange to mar EPS in the quarters ahead as well. A slashed EPS view for 2019 is disheartening.

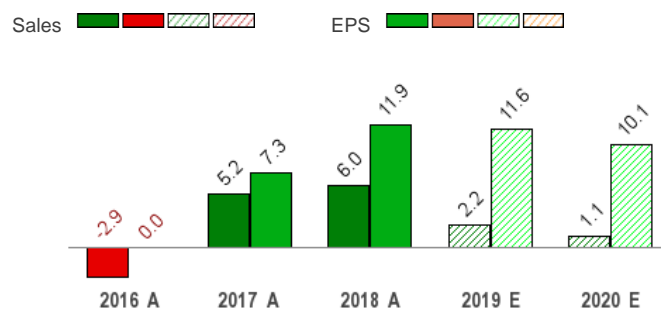
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.87 - \$157.19
20 Day Average Volume (sh)	1,028,977
Market Cap	\$58.1 B
YTD Price Change	4.4%
Beta	0.80
Dividend / Div Yld	\$1.88 / 0.9%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 7% (237 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.6%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	02/18/2020
Earnings ESP	-9.7%
P/E TTM	35.4
P/E F1	31.2
PEG F1	2.5
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,619 E	3,879 E	3,864 E	3,923 E	15,156 E
2019	3,505 A	3,759 A	3,818 A	3,872 E	14,984 E
2018	3,471 A	3,690 A	3,747 A	3,761 A	14,668 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.17 E	\$1.59 E	\$1.82 E	\$1.84 E	\$6.45 E
2019	\$1.03 A	\$1.42 A	\$1.71 A	\$1.68 E	\$5.86 E
2018	\$0.91 A	\$1.27 A	\$1.53 A	\$1.54 A	\$5.25 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 02/03/2020. The reports text is as of 02/04/2020.

Overview

Headquartered in St. Paul, MN, Ecolab Inc is a leading provider of water, hygiene and energy technologies and services that protect people and vital resources.

The company's programs and services helps in promoting safe food, maintaining clean environments, optimizing water and energy use, and improving operational efficiencies for customers in the food, energy, healthcare, industrial and hospitality markets in more than 170 countries.

The company's three main reportable segments are Global industrial, Global Institutional and Global Energy. The Other segment comprises fee-for-service business.

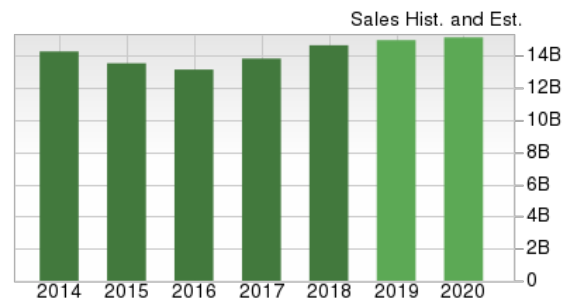
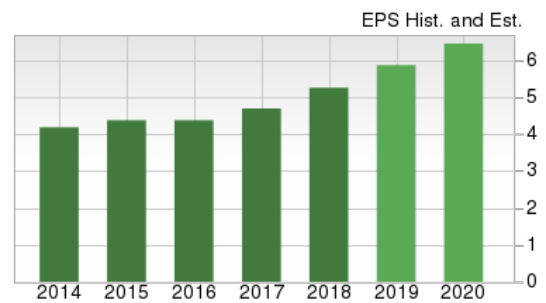
Global Industrial segment consists of the Water, Food & Beverage, Paper and Textile Care operating units. The segment provides water treatment & process applications, and cleaning & sanitizing solutions primarily to large industrial customers within the manufacturing, food and beverage processing, chemical, mining and primary metals, power generation, pulp and paper, and commercial laundry industries.

Global Institutional segment comprises Institutional, Specialty and Healthcare operating units. The segment offers specialized cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government and education and retail industries.

Global Energy segment serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.

The **Other segment** comprises the remaining two units Pest Elimination and Equipment Care which are primarily fee-for-service businesses.

2018 at a Glance : Full-year revenues totaled \$14.67 billion, up 6% from 2017. Ecolab's segments — Global Industrial recorded revenues worth \$5.46 billion (37.2% of net sales), Global Institutional revenues were \$5.20 billion (35.5%), Global Energy revenues totaled \$3.50 billion (23.9%) and Other revenues were \$877.6 million (6%).



Reasons To Buy:

- ▲ **Impressive Stock Performance:** In the past year, Ecolab's stock has rallied 27%, much higher than the industry's 5.3% gain. The current level is also higher than the S&P 500 index's rally of 16.9%.

A robust product portfolio and expanding customer base should drive organic sales while the realization of targeted synergies associated with acquisitions are likely to expand margins. The company is currently emphasizing on product innovation, sales organization, volume growth, cost savings and strategic divestments. We believe that excellent combination of advanced cleaning & sanitizing technologies, water treatment and pest elimination capabilities will drive the company's overall growth in 2019 and beyond.

A robust product portfolio, new product launches and expanding customer base should drive organic sales while the realization of targeted synergies associated with acquisitions should expand margins.

- ▲ **Cost Efficiency Program:** In recent times, Ecolab announced an efficiency program that will generate \$325 million of run rate savings by 2021. Earlier, Ecolab predicted it to be \$200 million. These additional savings are expected to build through 2019 with greater impact in 2020 and 2021.

The program leverages on the company's \$600 million in the last five years in technology. Ecolab is driving efficiency in G&A by leveraging its Workday and SAP platforms, consolidating systems, consolidating back offices, and by consolidating third-party vendors.

- ▲ **Product-Portfolio Solid:** Ecolab has major launches underway including the new Smartpowerware wash platform, which is expected to drive institutional improvements. Ecolab also continues to invest significantly in customer-facing technology and in infrastructure technology.

Ecolab's new Health Department Intelligence (HDI) platform also helps foodservice operators better understand their health inspection results, improve health inspection performance, and better manage food safety risks across multiple sites.

In recent times, the company launched a Life Sciences cleanroom program in North America, developed specially for pharmaceutical manufacturing. The program provides comprehensive cleaning and disinfection for both sterile and non-sterile applications.

Ecolab has been gaining traction in digital technology markets also. The company expects huge investments in the coming quarters to enhance its digital portfolio. New customer digital programs like SMARTPOWER, 3D CIP, 3D TRASAR, new QSR and FRS digital safety platforms continue to improve field efficiency, customer service and capability. Per management, new additions in the company's portfolio will help Ecolab to reach its mid-teens EPS growth goal beyond 2019.

- ▲ **Global Industrial to Drive Growth:** Sales at the segment grew 5.2% year over year to almost \$1.42 billion in the third quarter driven by major gains in Water and Life Sciences units. Geographically, all regions showed impressive sales growth in the quarter.

Last year, Ecolab acquired New York-based Cascade Water Services Inc., a privately-held company that provides water treatment programs and services to the U.S. institutional market. Notably, acquisition broadens services and improves opportunities in strategic water treatment market in the Global Industrial unit.

In recent past, Ecolab divested its phosphonate component business in China to Italmatch Chemicals SpA, a leading global specialty chemicals group and phosphonate supplier. Per management, the divestment is likely to enhance Ecolab's strategic focus on the core business and allow it to drive profits in China in the near term.

- ▲ **View Impressive:** For the fourth quarter of 2019, Ecolab expects adjusted EPS within \$1.64-\$1.74, suggesting year-over-year growth of 6-13%.

Adjusted gross margin is expected to be 42% of quarterly sales for the fourth quarter as well as 2019.

- ▲ **Strong Business:** Ecolab's consistent delivery of considerable earnings growth despite the current challenging business environment continues to impress. One can derive comfort from the company's large base of recurring revenues and its industry-leading technologies along with excellent field service, to support long-term growth for the company. Management remains optimistic regarding improvement in its ability to attract new customers, and opportunities for greater customer penetration through new product development.

In the first quarter of 2018, Ecolab witnessed strong performances by its core segments. Per management, strong performances in Asia Pacific and Latin America led Global Institutional growth. The company continues to see solid underlying sales volume and pricing across all its business segments.

- ▲ **Strategic Acquisitions & Divestments:** Ecolab continues to focus on investment in key growth businesses and bolt-on acquisitions to gain market traction and boost profits.

Last October, Nalco Champion, an Ecolab company, collaborated with Accenture and Microsoft to launch a new unified, digital platform – Refined Knowledge – powered by ECOLAB3D.

In recent past, Nalco Champion and XOS entered into an exclusive distribution agreement to provide a chlorine monitoring solution for the global refining industry.

Earlier, Ecolab, Trucost and Microsoft initiated a strategic collaboration to introduce Water Risk Monetizer, the industry's first publicly available financial modeling tool that allows businesses to understand the impact of water risks (sustainability of water).

Meanwhile, Ecolab plans to spin off Upstream Energy sub-unit as a stand-alone publicly-traded company by mid-2020. This is likely to make the Upstream Energy business, part of Ecolab's core Energy segment, a market-leading pure-play global provider of oil and gas production, drilling, and completion product and service solutions.

▲ **Strong International Presence:** Ecolab has a significant presence in the international market. The largest international operations of the company are in Europe, Asia-Pacific, Latin America and Canada. Ecolab operates on a smaller scale in Africa and the Middle East. Latin America represents a key growth area for the company's overseas operation. Ecolab's strong international presence has boosted its growth and we believe will continue doing so in the coming years, buoyed by the strong performance from emerging markets.

In the first quarter of 2018, Ecolab saw strong growth in Asia Pacific and Latin America.

Reasons To Sell:

▼ **Divestiture of Equipment Care Segment:** Despite yielding stellar returns last year, management at Ecolab announced the sale of its Equipment Care segment to Audax Private Equity. Growing in upper-single digits, the segment witnessed strong sales of \$180 million in 2016 (almost 1.4% of net sales). Diversified offerings like Equipment Care have lent Ecolab a competitive edge in the global market so far. Although the divestiture plan would enhance the company's focus on core businesses, it is likely to mar net revenues. Other terms of the agreement have been kept under wraps. Nonetheless, we believe the divestiture will enhance Ecolab's strategic focus on core segments like Global Industrial, Global Institutional and Global Energy.

Intensifying competition, foreign exchange volatility, higher raw material costs and integration risks are primary headwinds.

Further, Ecolab announced that it has sold its Fab-Tech business unit, a part of Ecolab's Global Energy segment to Dragon Products Ltd, a leading manufacturer of mission critical products serving the energy industry.

▼ **Segmental Softness:** In the third quarter of 2019, Ecolab's Global Energy sales dropped 2.7% year over year to \$836.5 million. Per management, upstream sales dropped slightly owing to a significant decline in well-stimulation business. However, the decline was offset by impressive growth in production sales. Downstream sales were soft in the quarter as well.

▼ **2019 EPS View Slashed:** For 2019, Ecolab expects adjusted EPS within \$5.80-\$5.90, calling for 10-12% growth over 2018. The projected band is lower than the previously communicated range of \$5.80-\$6.00. Notably, foreign currency translation is expected to have a 13-cent unfavorable impact on adjusted EPS.

▼ **Cutthroat Competition:** Ecolab operates in highly competitive markets. The company's competitors can be grouped into two classes: large companies, selling directly or through distributors, and many smaller regional players who focus on limited geographical areas, product line, and/or end-user division. Notably, Ecolab faces competition from bigwigs like P&G, Unilever, PuroClean and ChemStation. The company's U.S. Cleaning & Sanitizing and International divisions face stiff competition from Clorox and Church & Dwight.

▼ **Volatile Foreign Exchange:** Although Ecolab's significant international presence helps widen its customer base among other positives, volatility in currency exchange rates have adversely impacted the company's overall results. We believe that volatile foreign currency exchange rates will remain a significant headwind for Ecolab in 2019 and beyond. We expect it to be a potential headwind for Ecolab considering its elaborate international presence.

In the third quarter of 2019, Ecolab's adjusted EPS was negatively impacted by 3 cents due to unfavorable currency movement. Additionally, fourth-quarter EPS is likely to be impacted by 2 cents.

▼ **Cost Fluctuations:** The fluctuation in the cost of raw materials, especially in Europe, has the potential to affect Ecolab adversely. The frequent changes in oil or raw material prices, the absence of adequate and reasonably priced raw materials or their substitutes coupled with other factors, can hinder the business model of the company. Although Ecolab employs effective pricing strategies to offset raw material inflation, raw material cost is expected to remain a headwind, moving ahead.

Last Earnings Report

Ecolab Q3 Earnings Miss Estimates, 2019 EPS View Slashed

Ecolab reported third-quarter 2019 adjusted EPS of \$1.71, missing the Zacks Consensus Estimate by a penny. Adjusted EPS rose 11.8% on a year-over-year basis.

The company's quarterly net sales amounted to \$3.82 billion, up 1.9% from the year-ago quarter number. However, net sales lagged the Zacks Consensus Estimate of \$3.89 billion.

Segmental Analysis

Global Industrial

Sales at the segment grew 5.2% year over year to \$1.42 billion, driven by major growth in the Water, Food & Beverage and Life Sciences units. Geographically, all regions showed impressive sales growth in the quarter.

Global Institutional

Sales improved 4% year over year to \$1.36 billion, led by robust growth in the Specialty business. Sales at the segment showed solid growth across all geographies.

Global Energy

Sales at the segment dropped 2.7% year over year to \$836.5 million. Per management, upstream sales dropped slightly owing to a significant decline in well-stimulation business. However, the decline was offset by impressive growth in production sales. Downstream sales were soft in the quarter as well.

Other

Sales rose 6.8% year over year to \$242.8 million, reflecting strong gains in both Pest Elimination and Colloidal Technologies across all geographies.

Margin Analysis

Ecolab registered adjusted gross profit of \$1.62 billion, up 4% year over year. As a percentage of revenues, adjusted gross margin in the third quarter was 42.5%, up 90 basis points (bps).

Adjusted operating income in the quarter was \$659.3 million, up 10.7% year over year. Adjusted operating margin in the quarter was 17.3%, which expanded 140 bps year over year. Per management, the upside in margins was led by double-digit Industrial and Energy segment income growth.

Guidance

For 2019, Ecolab expects adjusted EPS within \$5.80-\$5.90, calling for 10-12% growth over 2018. The projected band is lower than the previously communicated range of \$5.80-\$6.00.

Foreign currency translation is expected to have a 13-cent unfavorable impact on adjusted EPS.

Adjusted gross margin is expected to be 42% of net sales.

For the fourth quarter of 2019, Ecolab expects adjusted EPS within \$1.64-\$1.74, mirroring year-over-year growth of 6-13%.

Foreign currency translation is expected to have a 2-cent unfavorable impact on adjusted EPS.

Adjusted gross margin is expected to be 42% of quarterly sales.

Quarter Ending 09/2019

Report Date	Oct 29, 2019
Sales Surprise	-1.77%
EPS Surprise	-0.58%
Quarterly EPS	1.71
Annual EPS (TTM)	5.70

Valuation

Ecolab's shares are up 4.4% in the past six months while up 26.7% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 4.4% and the Zacks Basic Materials Market are down 8% in the past six months. Over the past year, the Zacks sub-industry and marker are up 5.3% and down 8.6%, respectively.

The S&P 500 index is up 0.1% in the past six months period and 17.5% in the past year.

The stock is currently trading at 3.83X Forward 12-months sales, which compares to 4.11X for the Zacks sub-industry, 1.72X for the Zacks sector and 3.43X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.87X and as low as 2.06X, with a 5-year median 2.67X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$212 price target reflects 4.03X forward 12-months sales.

The table below shows summary valuation data for ECL.

Valuation Multiples - ECL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.83	4.11	1.72	3.43
	5-Year High	3.87	4.33	2.24	3.43
	5-Year Low	2.06	3.19	1.48	2.54
	5-Year Median	2.67	3.83	1.81	3
P/B TTM	Current	6.82	6.82	2.18	4.4
	5-Year High	7.26	9.36	3.54	4.54
	5-Year Low	4.24	5.85	1.34	2.85
	5-Year Median	5.27	7.51	2.18	3.62

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (237 out of 254)



Top Peers

Procter & Gamble Company (The) (PG)	Outperform
Church & Dwight Co., Inc. (CHD)	Neutral
Colgate-Palmolive Company (CL)	Neutral
Johnson & Johnson (JNJ)	Neutral
Kimberly-Clark Corporation (KMB)	Neutral
Rollins, Inc. (ROL)	Neutral
Unilever PLC (UL)	Neutral
Unilever NV (UN)	Neutral

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ECL Neutral	X Industry	S&P 500	PG Outperform	UL Neutral	UN Neutral
VGM Score	D	-	-	B	B	A
Market Cap	58.09 B	1.39 B	23.66 B	308.95 B	69.95 B	100.83 B
# of Analysts	12	2	13	9	3	3
Dividend Yield	0.93%	0.00%	1.82%	2.38%	2.98%	2.61%
Value Score	D	-	-	C	B	B
Cash/Price	0.00	0.04	0.04	0.02	0.08	0.06
EV/EBITDA	21.56	10.25	13.87	34.31	NA	NA
PEG Ratio	2.53	1.52	1.97	3.31	2.38	2.46
Price/Book (P/B)	6.74	1.94	3.24	6.87	4.50	6.48
Price/Cash Flow (P/CF)	23.52	10.44	13.40	21.35	7.80	11.24
P/E (F1)	31.58	14.31	18.48	25.06	19.60	19.75
Price/Sales (P/S)	3.91	1.48	2.60	4.44	NA	NA
Earnings Yield	3.20%	6.44%	5.40%	3.99%	5.10%	5.07%
Debt/Equity	0.69	0.69	0.72	0.42	NA	1.70
Cash Flow (\$/share)	8.57	2.36	6.92	5.86	7.68	5.23
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	6.25%	6.74%	10.80%	3.75%	NA	NA
Proj. EPS Growth (F1/F0)	9.96%	9.44%	7.46%	10.47%	6.64%	8.11%
Curr. Cash Flow Growth	8.95%	5.85%	10.59%	4.72%	-5.80%	-5.80%
Hist. Cash Flow Growth (3-5 yrs)	5.39%	5.06%	8.55%	-0.93%	4.28%	4.28%
Current Ratio	1.24	2.26	1.21	0.63	0.78	0.78
Debt/Capital	40.93%	41.17%	42.91%	29.26%	NA	62.92%
Net Margin	10.27%	5.56%	11.76%	6.92%	NA	NA
Return on Equity	20.08%	12.14%	17.24%	27.14%	NA	NA
Sales/Assets	0.72	0.71	0.55	0.60	NA	NA
Proj. Sales Growth (F1/F0)	1.15%	1.97%	4.22%	4.14%	6.62%	3.26%
Momentum Score	D	-	-	B	F	A
Daily Price Chg	2.76%	0.93%	0.67%	0.39%	0.15%	0.89%
1 Week Price Chg	-0.96%	-1.75%	-2.60%	-0.42%	0.93%	1.36%
4 Week Price Chg	7.36%	-2.47%	-0.76%	1.92%	5.02%	2.87%
12 Week Price Chg	6.72%	-1.31%	2.84%	4.84%	0.54%	-1.56%
52 Week Price Chg	26.60%	-5.29%	13.93%	27.62%	11.41%	7.65%
20 Day Average Volume	1,028,977	99,921	1,915,782	6,869,997	1,320,323	1,546,773
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.29%	0.11%
(F1) EPS Est 4 week change	-1.18%	0.00%	0.00%	1.01%	-1.40%	0.68%
(F1) EPS Est 12 week change	-1.33%	-4.63%	-0.13%	1.31%	-1.40%	-1.65%
(Q1) EPS Est Mthly Chg	-0.55%	-0.54%	0.00%	0.34%	NA	NA

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	D
Growth Score	B
Momentum Score	D
VGM Score	D

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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