

Ecolab Inc. (ECL)

\$190.00 (As of 05/01/20)

Price Target (6-12 Months): **\$203.00**

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: F

Growth: B

Momentum: D

Summary

Ecolab exited the first quarter on a strong note. The company continues to gain from core Global Industrial and Global Institutional units. Management is optimistic about the recent launch of Eco-Flex Teat dip which will further expand its product base. Expansion in gross and operating margins instill optimism. The stock has outperformed the industry in a year's time. Ecolab's Upstream Energy unit saw sluggishness in the first quarter owing to a decline in the well-stimulation business. Moreover, the company has suspended quarterly and full-year 2020 guidance in view of the prevailing uncertainty due to the COVID-19 pandemic.

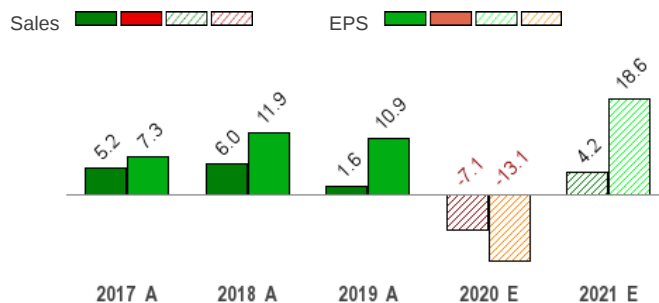
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$210.98 - \$124.60
20 Day Average Volume (sh)	1,419,101
Market Cap	\$54.8 B
YTD Price Change	-1.6%
Beta	0.99
Dividend / Div Yld	\$1.88 / 1.0%
Industry	Chemical - Specialty
Zacks Industry Rank	Top 47% (119 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.6%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-6.2%
Expected Report Date	NA
Earnings ESP	-7.8%
P/E TTM	32.1
P/E F1	37.6
PEG F1	3.0
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,412 E	3,574 E	3,658 E	3,718 E	14,427 E
2020	3,581 A	3,267 E	3,325 E	3,481 E	13,851 E
2019	3,505 A	3,759 A	3,818 A	3,824 A	14,906 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.13 E	\$1.43 E	\$1.60 E	\$1.73 E	\$6.00 E
2020	\$1.13 A	\$0.96 E	\$1.41 E	\$1.57 E	\$5.06 E
2019	\$1.03 A	\$1.42 A	\$1.71 A	\$1.66 A	\$5.82 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 05/01/2020. The reports text is as of 05/04/2020.

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.

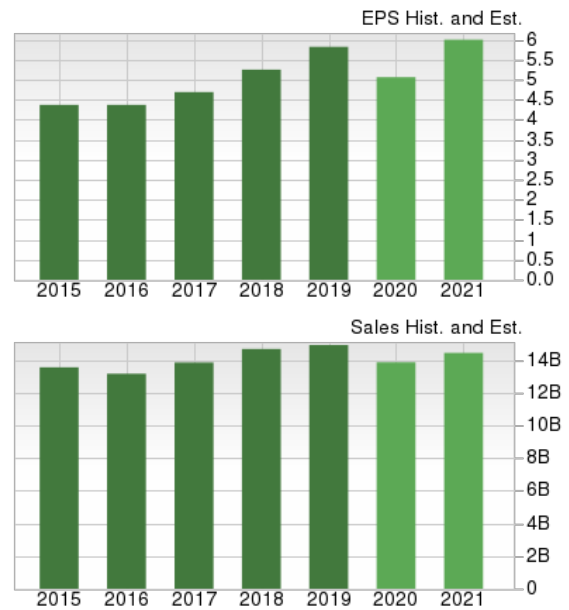
Global Energy segment serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.

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

2019 at a Glance

Ecolab's 2019 revenues totaled \$14.91 billion, up 1.6%.

Global Industrial sales were \$5.57 billion (37.4% of net sales), Global Institutional sales grossed \$5.24 billion (35.1%), Global Energy revenues were \$3.33 billion (22.4%), while Other revenues were \$907.5 million (6.1%).



Reasons To Buy:

▲ **Impressive Stock Performance:** In the past year, Ecolab's stock has returned 5%, compared with the industry's decline of 12.2%. 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 2020 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:** Ecolab recently announced an efficiency program that will generate \$325 million of run rate savings by 2021. These additional savings are expected to have a greater impact in 2020 and 2021. In fact, as a result of the May 2020 program, the company expects to more than \$130 million with respect to selling, general and administrative costs in 2020.

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. Recently, 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.

▲ **Global Industrial Drives Growth:** Sales at the segment grew 3.3% year over year to \$1.44 billion, driven by solid growth in Food & Beverage and favorable performance in Downstream and Paper divisions.

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.

▲ **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.

▲ **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.

▲ **Separation of ChampionX Business:** On Dec 19, 2019, Ecolab entered into a definitive agreement wherein it decided to separate the ChampionX business and at the same time combining it with Apergy Corporation in a tax-free Reverse Morris Trust transaction. The transaction is likely to build a stronger business that can push through the current downturn and also become a successful, long-term market leader with more robust cash generation, low capital intensity and large base of consumable revenues. The transaction is anticipated to be completed by the end of second-quarter 2020. On completion of the separation, ChampionX will be accounted as a discontinued operation for Ecolab's full year 2020.

▲ **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.

Reasons To Sell:

- ▼ **Suspension of 2020 Outlook:** The company has suspended quarterly and full-year 2020 outlook due to the uncertainty surrounding the impact and duration of the pandemic.

However, per management, sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is estimated on Industrial segment businesses and a substantial amount of pressure on sales in Institutional and Other segments. The pandemic's impact on restaurant, hospitality, and entertainment is anticipated to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year and more substantially in the second quarter.

A much more significant impact from the COVID-19-induced crisis is likely to be witnessed in the second quarter. Nonetheless, the company anticipates to see gradual improvement in the second half with the start of recovery of markets and the demand for cleaning and sanitizing remaining above normal.

- ▼ **Segmental Softness:** In first-quarter 2020, Ecolab's Upstream Energy sales dropped 3.3% year over year to \$562.7 million. Per management, sales dropped owing to a significant decline in the well-stimulation business. However, higher production sales partially offset the downside.
- ▼ **Weak Liquidity Position:** Ecolab exited the first quarter with cash and cash equivalents of \$1.66 billion significantly higher than \$186.4 million, sequentially. However, total debt came up to \$7.78 billion in the quarter, increasing from \$6.35 billion in the previous quarter, much higher than the quarter's cash and cash equivalent level. In fact, the company's cash position is not sufficient enough to cover the debt obligations. This does not reflect a healthy financial structure and indicates a high-leveraged balance sheet. Consequently, the company's high level of debt on the balance sheet is concerning, especially amid the coronavirus mayhem that has forced the corporate sector halt their production and supply.
- ▼ **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.
- ▼ **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.
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Intensifying competition, foreign exchange volatility, higher raw material costs and integration risks are primary headwinds.

Last Earnings Report

Ecolab Q1 Earnings and Revenues Surpass Estimates

Ecolab Inc. reported first-quarter 2020 adjusted earnings per share of \$1.13, beating the Zacks Consensus Estimate of \$1.07. Further, adjusted earnings per share improved 9.7% on a year-over-year basis.

The company's quarterly net sales amounted to \$3.58 billion, up 2.2% from the year-ago figure. Moreover, net sales outpaced the Zacks Consensus Estimate of \$3.50 billion by 2.3%.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	2.28%
EPS Surprise	5.61%
Quarterly EPS	1.13
Annual EPS (TTM)	5.92

Segmental Analysis

With effect from the first quarter, the company has made modifications to the way it reports its segments, as discussed below.

Global Industrial

Sales at the segment grew 3.3% year over year to \$1.44 billion, driven by solid growth in Food & Beverage and favorable performance in Downstream and Paper divisions.

Global Institutional

Sales improved 5.1% year over year to \$1.07 billion, led by robust growth in the Specialty business.

Global Healthcare and Life Sciences

Sales at the segment rose 8.5% year over year to \$246.2 million, driven by strong performance in Life Sciences.

Upstream Energy

Sales at the segment declined 3.3% year over year to \$562.7 million. Per management, sales dropped owing to a significant decline in the well-stimulation business. However, higher production sales partially offset the downside.

Other

Sales increased 1.1% year over year to \$277.8 million.

Margin Analysis

Ecolab registered adjusted gross profit of \$1.47 billion, up 0.2% year over year. As a percentage of revenues, adjusted gross margin in the first quarter was 41.1%, up 60 basis points (bps).

Adjusted operating income in the quarter was \$461.8 million, up 12.5% year over year. Adjusted operating margin in the quarter was 12.9%, which expanded 120 bps year over year.

Guidance

The company has suspended quarterly and full-year 2020 outlook due to the uncertainty surrounding the global pandemic and the duration of the same.

However, per management, sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is estimated on Industrial segment businesses and a substantial amount of pressure on sales in Institutional and Other segments.

The pandemic's impact on restaurant, hospitality, and entertainment is expected to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year and more substantially in the second quarter.

A much more significant impact from the COVID-19-induced crisis is projected to be witnessed in the second quarter. Nonetheless, the company anticipates to see gradual improvement in the second half with the start of recovery of markets and the demand for cleaning and sanitizing remaining above normal.

Recent News

On **Feb 26**, Ecolab introduced PolyVantage, a revolutionary laundry detergent with a patent-pending surfactant technology that attracts oils on the surface of linen and lifts them at low temperatures.

Valuation

Ecolab's shares are up 0.3% and 5% in the year-to-date period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 14.6% and the Zacks Basic Materials Market are down 16.2% in the year-to-date period. Over the past year, the Zacks sub-industry and market are down 12.2% and 13%, respectively.

The S&P 500 index is down 8.8% in the year-to-date period but up 0.4% in the past year.

The stock is currently trading at 3.9X Forward 12-months sales, which compares to 3.9X for the Zacks sub-industry, 1.7X for the Zacks sector and 3.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.9X and as low as 2.1X, with a 5-year median 2.7X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$203 price target reflects 4X 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	3.86	3.92	1.7	3.3
	5-Year High	3.99	4.32	2.28	3.44
	5-Year Low	2.12	2.99	1.32	2.54
	5-Year Median	2.69	3.87	1.83	3.01
P/B TTM	Current	6.39	1.75	3.48	3.89
	5-Year High	7.26	3.57	5.05	4.55
	5-Year Low	4.14	1.22	2.9	2.84
	5-Year Median	5.31	2.17	4.3	3.64

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Top 47% (119 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Church & Dwight Co., Inc. (CHD)	Neutral	3
Colgate-Palmolive Company (CL)	Neutral	3
Johnson & Johnson (JNJ)	Neutral	3
Kimberly-Clark Corporation (KMB)	Neutral	2
Procter & Gamble Company (The) (PG)	Neutral	3
Rollins, Inc. (ROL)	Neutral	3
Unilever PLC (UL)	Neutral	3
Unilever NV (UN)	Neutral	3

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ECL	X Industry	S&P 500	PG	UL	UN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	A	A
Market Cap	54.75 B	1.05 B	20.61 B	289.20 B	60.18 B	84.21 B
# of Analysts	11	2	14	9	2	2
Dividend Yield	0.99%	0.61%	2.11%	2.71%	3.47%	3.68%
Value Score	F	-	-	D	A	B
Cash/Price	0.00	0.05	0.06	0.05	0.09	0.07
EV/EBITDA	20.09	8.92	11.87	31.97	4.42	8.49
PEG Ratio	3.01	2.46	2.47	3.29	NA	NA
Price/Book (P/B)	6.28	1.36	2.67	6.42	3.87	5.41
Price/Cash Flow (P/CF)	20.84	7.44	10.66	20.11	6.24	8.73
P/E (F1)	37.55	12.85	19.01	23.58	19.15	18.50
Price/Sales (P/S)	3.65	1.33	2.10	4.11	NA	NA
Earnings Yield	2.66%	7.17%	5.05%	4.24%	5.22%	5.40%
Debt/Equity	0.68	0.68	0.72	0.52	0.00	1.70
Cash Flow (\$/share)	9.29	2.29	7.01	5.86	8.31	5.66
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	6.87%	5.47%	10.88%	5.01%	NA	NA
Proj. EPS Growth (F1/F0)	-13.04%	-8.65%	-7.32%	9.59%	-5.94%	-7.17%
Curr. Cash Flow Growth	8.14%	4.65%	5.92%	4.72%	1.99%	1.99%
Hist. Cash Flow Growth (3-5 yrs)	4.49%	6.38%	8.55%	-0.93%	5.95%	5.95%
Current Ratio	1.33	2.11	1.23	0.83	0.78	0.78
Debt/Capital	40.64%	40.54%	43.84%	33.66%	0.00%	62.92%
Net Margin	10.32%	6.97%	11.08%	7.09%	NA	NA
Return on Equity	20.32%	11.06%	16.44%	29.15%	NA	NA
Sales/Assets	0.72	0.70	0.54	0.61	NA	NA
Proj. Sales Growth (F1/F0)	-5.45%	0.00%	-1.42%	3.46%	-3.60%	-4.95%
Momentum Score	D	-	-	B	C	B
Daily Price Chg	-2.07%	-1.57%	-2.39%	0.67%	0.46%	0.41%
1 Week Price Chg	0.74%	0.00%	-1.74%	-4.74%	-2.48%	-2.28%
4 Week Price Chg	27.17%	17.94%	17.07%	3.03%	2.17%	1.83%
12 Week Price Chg	-6.57%	-20.69%	-18.53%	-7.29%	-14.91%	-17.58%
52 Week Price Chg	4.98%	-25.81%	-9.82%	11.66%	-13.26%	-16.91%
20 Day Average Volume	1,419,101	164,314	2,641,413	11,239,907	1,490,632	2,589,053
(F1) EPS Est 1 week change	-4.13%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.24%	-5.67%	-6.62%	0.11%	-0.92%	-0.93%
(F1) EPS Est 12 week change	-16.92%	-20.84%	-13.28%	-0.80%	-12.28%	-10.30%
(Q1) EPS Est Mthly Chg	-20.25%	-11.70%	-11.97%	-8.10%	NA	NA

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	F
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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