

Republic Services (RSG)

\$81.39 (As of 07/01/20)

Price Target (6-12 Months): **\$86.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Republic Services continues to grow internally with the help of long-term contracts for the collection, recycling and disposal of solid waste materials. The company is focused on increasing its operational efficiency by shifting to compressed natural gas collection vehicles and converting rear-loading trucks to automated-side loaders to reduce costs and improve profitability. Consistency in dividend payments and share buybacks not only boost investor confidence but also positively impact earnings per share. On the flip side, the company's operation in a highly competitive solid waste industry remains a concern. High debt may limit the company's future expansion and worsen its risk profile. Seasonality continues to act as a major headwind. Partly due to these negatives, shares of Republic Services have declined over the past year.

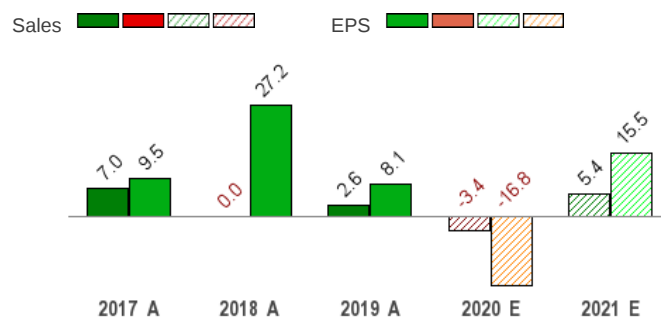
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.91 - \$65.37
20 Day Average Volume (sh)	1,378,233
Market Cap	\$25.9 B
YTD Price Change	-9.2%
Beta	0.62
Dividend / Div Yld	\$1.62 / 2.0%
Industry	Waste Removal Services
Zacks Industry Rank	Bottom 39% (154 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	08/06/2020
Earnings ESP	12.0%
P/E TTM	24.1
P/E F1	29.3
PEG F1	3.1
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,567 E	2,727 E	2,696 E	2,661 E	10,489 E
2020	2,554 A	2,316 E	2,496 E	2,539 E	9,953 E
2019	2,471 A	2,605 A	2,647 A	2,577 A	10,299 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.77 E	\$0.86 E	\$0.94 E	\$3.21 E
2020	\$0.77 A	\$0.53 E	\$0.71 E	\$0.79 E	\$2.78 E
2019	\$0.73 A	\$0.79 A	\$0.91 A	\$0.91 A	\$3.34 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 07/01/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/02/2020.

Overview

Republic Services is the second largest provider of non-hazardous solid waste collection, transfer, disposal, recycling, and energy services in the United States. As of Dec 31, 2019, the company operated facilities in 41 states and Puerto Rico through 340 collection operations, 212 transfer stations, 189 active landfills, 79 recycling processing centers, seven treatment, recovery and disposal facilities, 15 salt water disposal wells. The company is engaged in 75 landfill gas-to-energy and renewable energy projects and had post-closure responsibility for 130 closed landfills. The was incorporated in Delaware in 1996.

The company generates revenues mainly from its solid waste collection operations. The remaining revenue comes from other services, which includes transfer station, landfill disposal, recycling, and energy services.

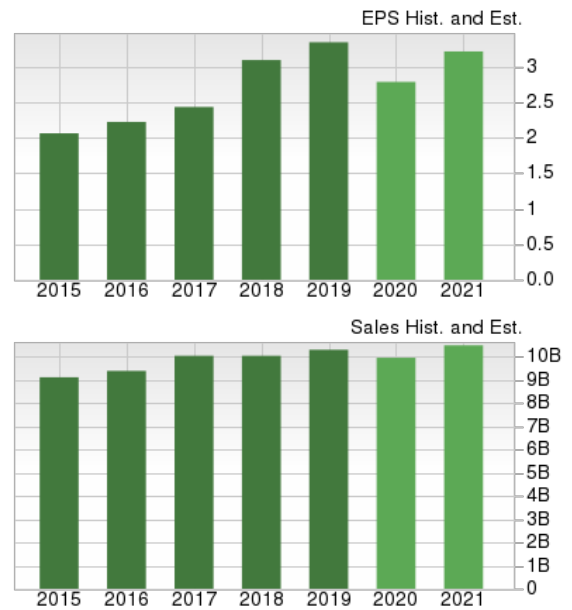
Collection Services unit (75% of 2019 revenues) provides commercial, residential, industrial and other services. Residential collection operations are performed under contracts with municipalities and include collection of refuse from containers into collection vehicles and dumped to transfer stations or landfills. On the commercial and industrial side, the company supplies its customers with waste containers and rents compactors to large waste generators.

Transfer Services unit (6%) deposits waste at its transfer stations. Transfer stations provide collection operations in a cost effective manner to consolidate waste and reduce transportation costs. Revenues are generated by charging extras or disposal fees. The company owns or operates 207 transfer stations.

Landfill Services revenues (13%) are generated from tipping fees charged to third parties. Landfill unit undertakes highly-engineered systems with several layers of environmental protection to increase their overall energy output. The company owns or operates 190 active landfills.

Recycling Services revenues (3%) are generated through the processing and sale of old corrugated containers (OCC), old newsprint (ONP), aluminum, glass and other materials. The company owns or operates 91 recycling processing centers.

Environmental Services (2%) activity varies across market areas depending on the natural resource basins in which the drilling activity occurs and reflects the regulatory environment, pricing and disposal alternatives available in any given market.



Reasons To Buy:

- ▲ Republic Services continues to **grow internally** with the help of long-term contracts for the collection, recycling and disposal of solid waste materials. Such agreements increases the company's contracted revenue base, thereby strengthening its market position. Further, the company continues to look out for strategic price increase in order to offset increased costs, improve operating margins and enjoy an appropriate return on its substantial investments in vehicles, equipment, landfills, transfer stations and recycling centers. Increasing demand for the recycling of waste products is another major positive for Republic Services' business. Notably, in 2019, revenue growth includes a positive impact of 1.8% internal growth.
- ▲ Republic Services is focused on increasing its **operational efficiency** by shifting to compressed natural gas (CNG) collection vehicles and converting rear-loading trucks to automated-side loaders, which will reduce cost and improve profitability. The company is focused on enhancing its operations by streamlining the cost structure, improving revenue quality and seeking growth through profitable investment opportunities. In 2019, almost 13% of the replacement vehicle purchases were CNG vehicles. Meanwhile, the company is highly optimistic about the usage of CNG vehicles, which will help it compete effectively on grounds of maintaining a clean environment. Despite higher expenses, CNG reduces the company's overall fleet operating costs through lower fuel expenses. As of Dec 31, 2019, Republic Services operated 39 CNG fueling stations. All these factors offer a solid investment proposition for the company.
- ▲ We are impressed with Republic Services' consistent efforts in rewarding its shareholders through **dividend payments and share repurchases**. In 2019, 2018 and 2017, the company paid \$491.2 million, \$461.8 million and \$440.5 million in dividends and repurchased shares worth \$399.4 million, \$736.9 million and \$610.7 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.

Internal growth and efforts to improve operational efficiency boost Republic Services.

Reasons To Sell:

- ▼ Republic Services operates in a **highly competitive solid waste industry**. Large national waste management companies, multiple municipalities and several other regional and smaller companies gives tough competition to the company. Municipalities are particularly a threat to the company's market share as these maintain their own waste collection and disposal activities and benefit from the availability of tax revenues and tax-exempt financing. Price increase and profitability expansion becomes difficult under such a fierce competitive situation. This may weigh on its share price which has declined 7.2% over the past year.
- ▼ Republic Services' **revenues are highly seasonal in nature** with comparatively lower revenues in the fourth and first quarter, as against the second and third quarters. This is mainly due to lower volume of solid waste generated during winter, owing to lesser construction and demolition activities. Severe cold weather conditions further result in a slowdown in waste collection and disposal activities. All these seasonal factors lower revenue generation and increase operating risks.
- ▼ Republic Services has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$8.98 billion, up from \$8.69 billion at the end of the prior quarter. The total debt to total capital ratio of 52.4 is higher than the previous quarter's 48.9. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$282 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$25 million.

Stiff competition, seasonality and high debt weigh on Republic Services' prospects.

Last Earnings Report

Republic Services Supasses Q1 Earnings & Revenue Estimates

Republic Services reported solid first-quarter 2020 results wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share (EPS) of 77 cents outpaced the consensus mark by 2.7% and improved 5.5% year over year.

Republic Services continued to convert CPI-based contracts to more favorable pricing mechanisms for annual price adjustment. It now has roughly \$815 million in annual revenues, or 33% of nearly \$2.5 billion CPI-based book of business.

The company's average recycled commodity price per ton sold in the first quarter was \$76, reflecting a sequential increase from \$10 per ton sold in fourth-quarter 2019.

Further, it launched the \$20-million "Committed to Serve" initiative, aimed at helping frontline employees, customers and communities. The company has been honored for the fourth consecutive year as one of the 2020 World's Most Ethical Companies by Ethisphere.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.36%
EPS Surprise	2.67%
Quarterly EPS	0.77
Annual EPS (TTM)	3.38

Revenues

Quarterly revenues of \$2.55 billion beat the consensus estimate by 0.4% and increased 3.4% year over year. Positive impact of 2.4% internal growth and 1% impact of acquisitions benefited the top line.

Revenues in the **Collection** segment totaled \$1.94 billion, up 3.3% year over year. **Transfer** segment revenues of \$137 million increased 11.5% year over year. **Landfill** segment revenues of \$306 million increased 3.1% year over year. **Environmental** services segment revenues of \$46.8 million improved 4% year over year. Other segment revenues of \$125.2 million decreased 3% year over year.

Operating Results

Adjusted EBITDA of \$723 million grew 3.4% year over year. Adjusted EBITDA margin of 28.3% improved 30 basis points (bps) on the back of 40 bps benefit from lower fuel prices and CNG tax credits, which were partially offset by 20 bps headwind from lower recycled commodity prices and 50 bps headwind from an additional workday in the reported quarter.

Operating income was \$433 million compared with \$422.8 million in the year-ago quarter. Operating margin declined to 16.9% from 17.1% in the year-ago quarter.

Total selling, general and administrative expenses were \$277.1 million compared with \$266.4 million in the year-ago quarter.

Balance Sheet and Cash Flow

Republic Services exited first-quarter 2020 with cash and cash equivalents of \$281.6 million compared with \$47.1 million at the end of the prior quarter. Long-term debt was \$8.95 billion compared with \$7.76 billion at the end of the prior quarter.

The company generated \$569.5 million of cash from operating activities and spent \$346.8 million in capex in the reported quarter. Adjusted free cash flow was \$266.7 million.

The company invested \$63 million in acquisitions.

Share Repurchase and Dividend Payout

Republic Services returned \$228 million to shareholders through dividends and share repurchases during the reported quarter.

In January 2020, the company paid out \$129.2 million of cash dividend to shareholders of record as of Jan 2, 2020. As of Mar 31, 2020, the company's quarterly dividend payable was \$128.9 million to shareholders of record as of Apr 1, 2020. The dividend was paid out on Apr 15, 2020.

During the reported quarter, the company repurchased 1.2 million shares at an aggregate cost of \$98.8 million at an average cost of \$85.06 per share. As of Mar 31, 2020, the company had \$605.8 million available under its October 2017 repurchase program.

2020 Guidance

Considering the current uncertainty prevailing in the market on the back of coronavirus outbreak, Republic Services has suspended its full-year 2020 guidance. The company expects to generate more than \$1 billion of adjusted free cash flow in 2020, assuming that the GDP improves sequentially in the third and fourth quarter as predicted by economists.

Recent News

On **Jun 16, 2020**, Republic Services announced that it has been named to 3BL Media's annual 100 Best Corporate Citizens ranking, among the 1,000 largest U.S. public companies. This is the first time Republic Services has been honored on this category.

On **Jun 1, 2020**, Republic Services announced that it is entering into an alliance with three national nonprofit organizations on a \$3 million initiative, aimed at helping locally owned small businesses across America that have been disrupted by the COVID-19 pandemic.

On **Apr 17, 2020**, Republic Services announced that it has committed \$20 million to help its frontline employees and their families, and small-business customers through an initiative named "Committed to Serve".

Valuation

Republic Services shares are down 9.2% in the year-to-date period and 7.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 20.9% and 2.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 22.7% and 0.3%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period but up 4.7% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 11.8X, which compares to 9.78X for the Zacks sub-industry, 12.39X for the Zacks sector and 11.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.93X and as low as 8.58X, with a 5-year median of 10.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$86.00 price target reflects 12.47X forward 12-month earnings.

The table below shows summary valuation data for RSG.

Valuation Multiples - RSG					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.8	9.78	12.39	11.57
	5-Year High	13.93	12.32	13.36	12.86
	5-Year Low	8.58	8.62	8.56	8.25
	5-Year Median	10.77	10.32	10.53	10.86
P/E F 12M	Current	27.33	31.63	29.39	22.19
	5-Year High	30.52	32.97	29.39	22.19
	5-Year Low	18.39	20.02	18.68	15.25
	5-Year Median	23.63	23.52	20.83	17.52
P/S F 12M	Current	2.55	2.34	4.09	3.47
	5-Year High	2.95	2.51	4.09	3.47
	5-Year Low	1.48	1.72	3.06	2.53
	5-Year Median	2.16	2.1	3.58	3.02

As of 07/01/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Clean Harbors, Inc. (CLH)	Neutral	3
Covanta Holding Corporation (CVA)	Neutral	3
Casella Waste Systems, Inc. (CWST)	Neutral	3
US Ecology, Inc. (ECOL)	Neutral	3
Waste Connections, Inc. (WCN)	Neutral	3
Waste Management, Inc. (WM)	Neutral	3
Sharps Compliance Corp (SMED)	Underperform	3
Stericycle, Inc. (SRCL)	Underperform	5

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	RSG	X Industry	S&P 500	SRCL	WCN	WM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	B	-	-	B	B	B
Market Cap	25.91 B	636.47 M	21.87 B	5.02 B	24.33 B	44.35 B
# of Analysts	9	5	14	8	9	8
Dividend Yield	1.99%	0.00%	1.94%	0.00%	0.80%	2.07%
Value Score	B	-	-	D	D	C
Cash/Price	0.01	0.08	0.07	0.01	0.05	0.07
EV/EBITDA	12.30	10.44	12.69	30.50	17.68	12.96
PEG Ratio	3.10	4.93	2.86	4.60	6.00	4.93
Price/Book (P/B)	3.20	1.59	2.98	2.20	3.64	6.60
Price/Cash Flow (P/CF)	11.82	8.92	11.63	6.75	16.61	12.55
P/E (F1)	29.39	38.21	21.27	29.22	39.95	28.34
Price/Sales (P/S)	2.50	1.65	2.27	1.54	4.43	2.86
Earnings Yield	3.42%	1.67%	4.48%	3.42%	2.51%	3.53%
Debt/Equity	1.10	1.10	0.76	1.24	0.78	1.94
Cash Flow (\$/share)	6.89	0.28	6.94	8.14	5.57	8.38
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	13.07%	12.97%	10.93%	-9.04%	12.97%	14.56%
Proj. EPS Growth (F1/F0)	-16.67%	-15.55%	-9.61%	-29.01%	-14.83%	-15.74%
Curr. Cash Flow Growth	3.25%	3.25%	5.51%	-27.67%	8.62%	4.96%
Hist. Cash Flow Growth (3-5 yrs)	5.45%	5.45%	8.62%	9.45%	28.79%	6.90%
Current Ratio	0.89	1.39	1.30	1.47	1.98	1.84
Debt/Capital	52.44%	53.94%	44.46%	55.45%	43.70%	65.95%
Net Margin	10.45%	-10.08%	10.62%	-10.08%	10.63%	10.87%
Return on Equity	13.47%	4.08%	15.75%	9.80%	10.71%	27.69%
Sales/Assets	0.46	0.50	0.55	0.50	0.40	0.57
Proj. Sales Growth (F1/F0)	-3.36%	0.00%	-2.57%	-18.63%	-1.70%	-4.36%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	-0.80%	0.00%	-0.32%	-1.82%	-1.32%	-0.77%
1 Week Price Chg	0.73%	-2.07%	-3.90%	-3.61%	0.43%	1.02%
4 Week Price Chg	-6.74%	-3.85%	-4.56%	-7.58%	-2.60%	-4.65%
12 Week Price Chg	4.03%	5.75%	9.62%	14.67%	9.57%	9.90%
52 Week Price Chg	-7.18%	-29.97%	-7.80%	14.40%	-5.31%	-10.34%
20 Day Average Volume	1,378,233	135,211	2,688,665	519,367	897,752	2,434,629
(F1) EPS Est 1 week change	0.72%	0.00%	0.00%	0.00%	0.00%	0.68%
(F1) EPS Est 4 week change	0.72%	0.72%	0.00%	0.80%	0.29%	1.68%
(F1) EPS Est 12 week change	-7.87%	-13.64%	-9.63%	-28.35%	-11.01%	-6.82%
(Q1) EPS Est Mthly Chg	0.89%	0.00%	0.00%	0.00%	0.25%	3.53%

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	B
Growth Score	C
Momentum Score	A
VGM Score	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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