

## Republic Services (RSG)

**\$100.43** (As of 02/14/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: A

### Summary

Republic Services' fourth-quarter 2019 earnings beat the Zacks Consensus Estimate but revenues missed the same. The company continues to grow internally with the help of long-term contracts for the collection, recycling and disposal of solid waste materials. It 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. It has been rewarding shareholders through dividend payments and share buybacks. Due to these positives, the stock has outperformed its industry in the past year. However, 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 is another concern.

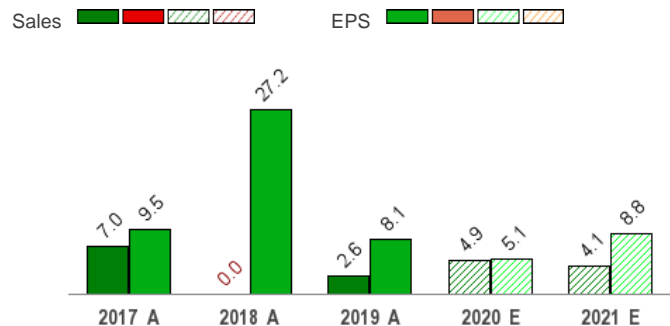
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$100.66 - \$76.13</b>
20 Day Average Volume (sh)	<b>983,201</b>
Market Cap	<b>\$32.1 B</b>
YTD Price Change	<b>12.1%</b>
Beta	<b>0.47</b>
Dividend / Div Yld	<b>\$1.62 / 1.6%</b>
Industry	<b><a href="#">Waste Removal Services</a></b>
Zacks Industry Rank	<b>Bottom 31% (175 out of 255)</b>

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



Last EPS Surprise	<b>2.3%</b>
Last Sales Surprise	<b>-1.7%</b>
EPS F1 Est- 4 week change	<b>0.5%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.2%</b>
P/E TTM	<b>30.1</b>
P/E F1	<b>28.6</b>
PEG F1	<b>3.0</b>
P/S TTM	<b>3.1</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,675 E	2,804 E	2,855 E	2,820 E	11,246 E
2020	2,579 E	2,721 E	2,761 E	2,735 E	10,804 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	\$0.88 E	\$0.94 E	\$1.00 E	\$1.03 E	\$3.82 E
2020	\$0.81 E	\$0.87 E	\$0.91 E	\$0.94 E	\$3.51 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, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

## 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.

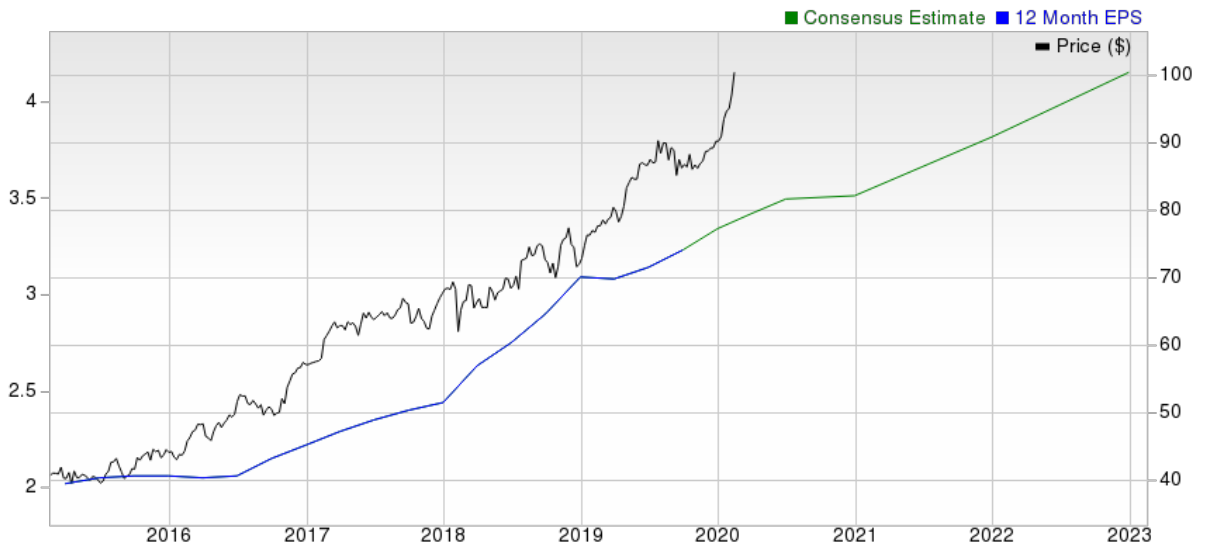
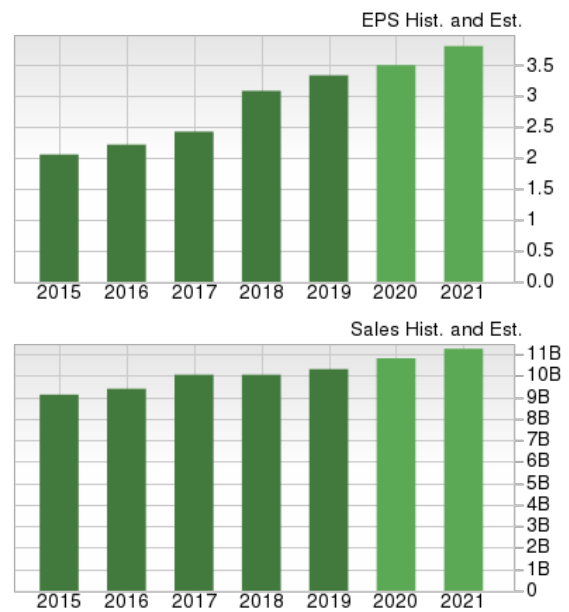
Collection Services unit (75% of 2019 revenues) provides commercial, residential, industrial and other services. Residential collection operations are performed under contracts with municipalities and include collection of refuse from containers into collection vehicles and dumped to transfer stations 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.



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## 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.
- ▲ Republic Services' shares have gained 29.4% over the past year, outperforming the 22.6% growth of the industry it belongs to. The **outperformance** partly reflects better-than-expected earnings performance in the last four quarters and raised 2020 guidance for adjusted earnings and adjusted free cash flow. The company now expects adjusted earnings in the range of \$3.48-\$3.53 per share compared with the prior guided range of \$3.46-\$3.51. Adjusted free cash flow is now anticipated in the range of \$1,175-\$1,225 million compared with the prior guided range of \$1,150 million to \$1,200 million.

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

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## 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.
- ▼ 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 **highly leveraged balance sheet**. As of Dec 31, 2019, long-term debt (net of current maturities) was \$7.76 billion while cash and cash equivalents were \$47.1 million. Such a cash position implies that Republic Services 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.

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

## Last Earnings Report

### Republic Services Q4 Earnings Top Estimates, EPS View Up

Republic Services reported mixed fourth-quarter 2019 results wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

Adjusted earnings per share of 91 cents outpaced the consensus mark by 2.2% and increased 13.8% year over year.

#### Revenues

Quarterly revenues of \$2.58 billion lagged the consensus estimate by 1.7% but increased 1.8% year over year. A positive impact of 0.8% internal growth and 1% impact of acquisitions benefited the top line.

Revenues in the **Collection** segment totaled \$1.94 billion, up 2.6% year over year. **Transfer** segment revenues of \$141.6 million increased 6.4% year over year. **Landfill** segment revenues of \$326.1 million increased 2.6% year over year. It contributed 13% to total revenues. **Environmental** services segment revenues of \$48.1 million improved 6.7% year over year. Other segment revenues of \$116.5 million decreased 13.4% year over year.

#### Operating Results

Adjusted EBITDA came in at \$2.9 billion and adjusted EBITDA margin was 28.3% (up 30 basis points year over year) in 2019.

Operating income was \$459.2 million compared with \$483.3 million in the year-ago quarter. Operating margin came in at 17.8% compared with 19.1% in the year-ago quarter. Total selling, general and administrative expenses were \$285.7 million compared with \$284.5 million in the year-ago quarter.

#### Balance Sheet and Cash Flow

Republic Services exited fourth-quarter 2019 with cash and cash equivalents of \$47.1 million compared with \$55.6 million at the end of the prior quarter. Long-term debt was \$7.76 billion compared with \$7.71 billion at the end of the previous quarter.

The company generated \$565.2 million of cash from operating activities and capex was \$349.3 million in the reported quarter. Adjusted free cash flow was \$226.1 million.

The company spent more than \$525 million on acquisitions in 2019.

#### Share Repurchase and Dividend Payout

Republic Services returned \$891 million to shareholders through dividends and share repurchases in 2019.

The company repurchased 0.5 million shares at an aggregate cost of \$45.6 million and at average cost of \$86.23 per share during the reported quarter. As of Dec 31, 2019, it had \$704.6 million available under its share repurchase authorization.

In Oct 2019, the company paid out \$129.3 million of cash dividend to shareholders of record as of Oct 1. The company paid out quarterly dividend totaling \$129.2 million to shareholders of record as of Jan 2 on Jan 15, 2020.

Concurrent with the earnings release, the company's board of directors declared a quarterly cash dividend of 40.5 cents per share, payable on Apr 15, 2020, to shareholders of record as of Apr 1, 2020.

#### 2020 Guidance

Republic Services unveiled its 2020 guidance for revenues while raising the same for adjusted earnings and adjusted free cash flow. Revenues are expected to register 4.25-5% growth. The company now expects adjusted earnings in the range of \$3.48-\$3.53 per share compared with the prior guided range of \$3.46-\$3.51. Adjusted free cash flow is now anticipated in the range of \$1,175-\$1,225 million compared with the prior guided range of \$1,150 million to \$1,200 million. The company expects adjusted EBITDA margin to expand by approximately 20-40 basis points. Effective tax rate is expected approximately 21%. The company plans to invest roughly \$200 million in tuck-in acquisitions and \$120 million in solar energy investments, which qualify for tax credits. Further, it expects to return approximately \$925 million of cash to shareholders, which includes nearly \$525 million through dividends and \$400 million through share repurchases.

Quarter Ending **12/2019**

Report Date	<b>Feb 13, 2020</b>
Sales Surprise	<b>-1.67%</b>
EPS Surprise	<b>2.25%</b>
Quarterly EPS	<b>0.91</b>
Annual EPS (TTM)	<b>3.34</b>

## Recent News

On **Jan 21, 2020**, Republic Services announced that it has been named to the prestigious Climate "A List" for its science-based goals, strategies and actions to lower greenhouse gas emissions and mitigate climate risks, by CDP, a global environmental impact nonprofit.

## Valuation

Republic Services shares are up 29.4% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 22.6%, 24.6% and 21%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 13.66X, which compares to 11.60X for the Zacks sub-industry, 12.44X for the Zacks sector and 11.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.89X and as low as 8.62X, with a 5-year median of 10.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$110.00 price target reflects 30.99X 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	13.66	11.6	12.44	11.36
	5-Year High	13.89	12.22	12.55	12.85
	5-Year Low	8.62	8.68	8.75	8.47
	5-Year Median	10.32	10.25	10.42	10.7
P/E F 12M	Current	28.29	27.97	26.66	19.36
	5-Year High	28.55	27.97	26.66	19.36
	5-Year Low	18.39	19.88	18.77	15.18
	5-Year Median	23.14	22.51	20.57	17.47
P/S F 12M	Current	2.95	2.57	4.26	3.58
	5-Year High	2.95	2.57	5.13	3.58
	5-Year Low	1.48	1.69	3.09	2.54
	5-Year Median	2.14	2.06	3.63	3

As of 02/14/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



## Top Peers

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

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	RSG Neutral	X Industry	S&P 500	SRCL Neutral	WCN Neutral	WM Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Market Cap	32.05 B	320.68 M	24.61 B	5.88 B	27.37 B	53.35 B
# of Analysts	8	4.5	13	8	9	8
Dividend Yield	1.61%	0.00%	1.78%	0.00%	0.71%	1.63%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.00	0.02	0.04	0.01	0.01	0.06
EV/EBITDA	14.08	12.01	14.06	100.84	20.71	14.71
PEG Ratio	3.02	3.35	2.09	2.78	4.00	3.27
Price/Book (P/B)	4.02	2.85	3.29	2.37	4.03	7.86
Price/Cash Flow (P/CF)	15.32	12.02	13.65	8.75	20.28	15.84
P/E (F1)	28.61	29.75	19.21	22.27	35.15	26.94
Price/Sales (P/S)	3.11	1.80	2.70	1.75	5.08	3.45
Earnings Yield	3.49%	3.13%	5.19%	4.50%	2.84%	3.71%
Debt/Equity	0.97	0.95	0.71	1.19	0.63	1.94
Cash Flow (\$/share)	6.56	0.59	6.92	7.37	5.12	7.94
<b>Growth Score</b>	<b>A</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	11.90%	8.88%	10.85%	-4.33%	10.68%	14.09%
Proj. EPS Growth (F1/F0)	4.94%	10.56%	7.17%	10.26%	8.58%	6.08%
Curr. Cash Flow Growth	9.81%	10.56%	8.56%	3.81%	12.02%	17.01%
Hist. Cash Flow Growth (3-5 yrs)	4.98%	5.15%	8.36%	9.90%	26.04%	2.95%
Current Ratio	0.49	0.94	1.23	0.94	1.11	1.86
Debt/Capital	49.13%	49.13%	42.91%	54.25%	38.48%	65.95%
Net Margin	10.42%	-0.06%	11.81%	-13.26%	10.52%	10.81%
Return on Equity	13.52%	4.26%	16.86%	10.52%	10.75%	28.69%
Sales/Assets	0.47	0.50	0.54	0.50	0.41	0.61
Proj. Sales Growth (F1/F0)	4.89%	5.16%	3.85%	0.15%	7.64%	5.16%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>F</b>	<b>C</b>	<b>A</b>
Daily Price Chg	1.43%	0.00%	0.06%	1.58%	0.98%	1.22%
1 Week Price Chg	2.20%	0.00%	2.47%	2.82%	3.45%	1.82%
4 Week Price Chg	7.39%	-0.88%	0.59%	0.92%	6.28%	5.24%
12 Week Price Chg	15.77%	0.36%	6.98%	3.22%	15.96%	13.07%
52 Week Price Chg	31.19%	-9.07%	16.62%	43.19%	28.16%	27.23%
20 Day Average Volume	983,201	85,991	2,020,569	489,464	662,542	1,408,778
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.34%	0.00%	-0.11%
(F1) EPS Est 4 week change	0.45%	0.00%	-0.05%	-0.34%	0.69%	0.25%
(F1) EPS Est 12 week change	0.77%	0.00%	-0.17%	-1.63%	1.40%	0.45%
(Q1) EPS Est Mthly Chg	1.42%	0.00%	-0.24%	-1.40%	0.26%	0.26%

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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	C
Growth Score	A
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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