

Republic Services (RSG)

\$94.64 (As of 01/27/20)

Price Target (6-12 Months): **\$100.00**

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: B

Momentum: C

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. It's consistency in rewarding shareholders through dividend payments and share buybacks boost investors' confidence and positively impact earnings per share and consequently its share price. 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 major risk.

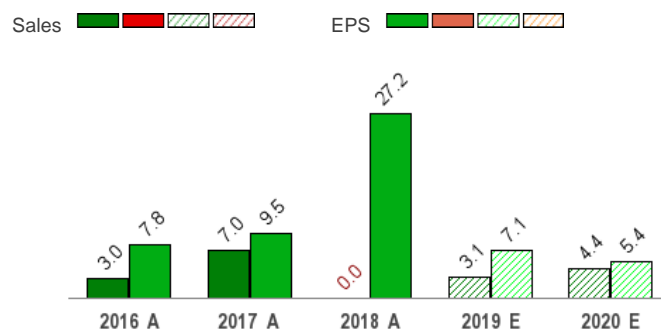
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$94.93 - \$75.03 |
| 20 Day Average Volume (sh) | 995,918 |
| Market Cap | \$30.2 B |
| YTD Price Change | 5.6% |
| Beta | 0.49 |
| Dividend / Div Yld | \$1.62 / 1.7% |
| Industry | Waste Removal Services |
| Zacks Industry Rank | Top 36% (93 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 7.1% |
| Last Sales Surprise | -1.8% |
| EPS F1 Est- 4 week change | 0.4% |
| Expected Report Date | 02/13/2020 |
| Earnings ESP | 3.5% |
| P/E TTM | 29.3 |
| P/E F1 | 27.1 |
| PEG F1 | 2.9 |
| P/S TTM | 3.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2020 | 2,581 E | 2,721 E | 2,762 E | 2,742 E | 10,806 E |
| 2019 | 2,471 A | 2,605 A | 2,647 A | 2,621 E | 10,348 E |
| 2018 | 2,428 A | 2,518 A | 2,566 A | 2,530 A | 10,041 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.81 E | \$0.85 E | \$0.91 E | \$0.95 E | \$3.49 E |
| 2019 | \$0.73 A | \$0.79 A | \$0.91 A | \$0.88 E | \$3.31 E |
| 2018 | \$0.74 A | \$0.73 A | \$0.82 A | \$0.80 A | \$3.09 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 01/27/2020. The reports text is as of 01/28/2020.

Overview

Republic Services Inc. 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, 2018, the company operated facilities in 41 states and Puerto Rico through 349 collection operations, 207 transfer stations, 190 active landfills, 91 recycling processing centers, seven treatment, recovery and disposal facilities, 11 salt water disposal wells. The company is engaged in 75 landfill gas-to-energy and renewable energy projects and had post-closure responsibility for 129 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.

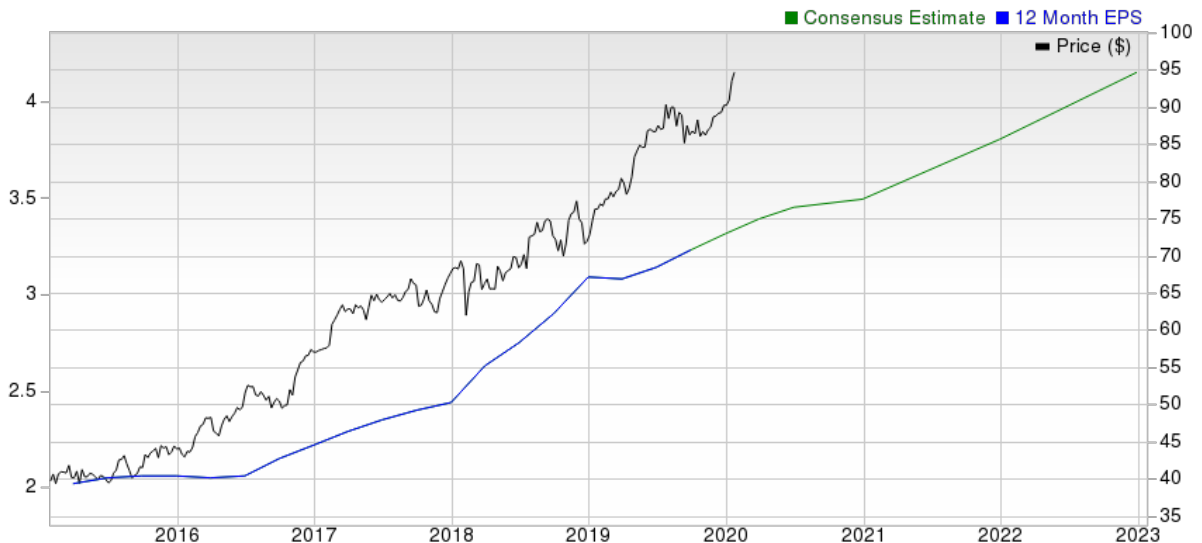
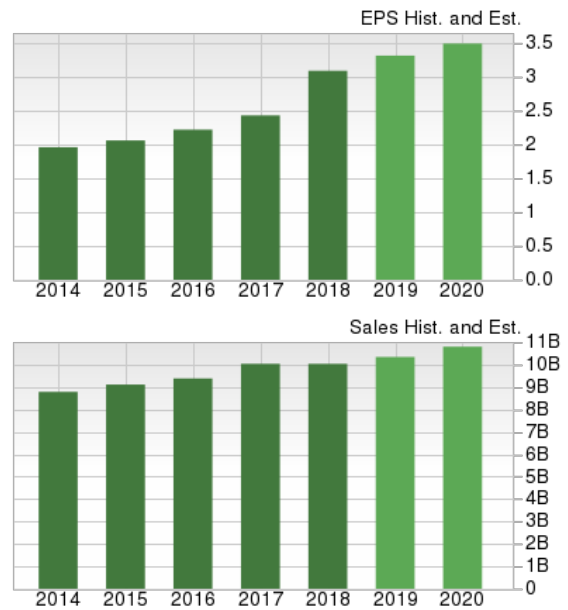
Collection Services unit (75% of 2018 revenues) provides commercial, residential, industrial and other services. Residential collection operations are performed under contracts with municipalities and include collection of refuse from containers into collection vehicles and dumped to transfer stations 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 (5%) 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.

Energy Services (20%) 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 2018, revenue growth includes a positive impact of 2.5% 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 2018, 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, 2018, Republic Services operated 37 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**. During the first nine months of 2019, Republic Services paid \$361.9 million in dividend payments and repurchased 4.3 million shares for \$353.8 million. In 2018, 2017 and 2016, the company paid \$461.8 million, \$440.5 million and \$418.9 million in dividends and repurchased shares worth \$736.9 million, \$610.7 million and \$403.8 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. This might have impacted the company's share price, which has improved 25% over the past year, outperforming the 21.9% rise of the industry it belongs to.

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.
- ▼ 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 Sep 30, 2019, long-term debt (net of current maturities) was \$7.71 billion while cash and cash equivalents were \$55.6 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 Surpasses Q3 Earnings Estimates, Revenues Lag

Republic Services reported mixed third-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 6 cents and increased 11% year over year.

Revenues

Quarterly revenues of \$2.65 billion lagged the consensus estimate by \$48 million but increased 3.5% year over year. A positive impact of 2% internal growth and 1.2% impact of acquisitions benefited the top line.

Revenues in the **Collection** segment totaled \$1.97 billion, up 3.2% year over year. **Transfer** segment revenues of \$154.9 million increased 8.8% year over year. **Landfill** segment revenues of \$339.8 million increased 2.5% year over year. It contributed 13% to total revenues. **Environmental** services segment revenues of \$57.8 million improved 12.2% year over year. Other segment revenues of \$125.6 million decreased 5.2% year over year.

Operating Results

Adjusted EBITDA came in at \$742 million and adjusted EBITDA margin was 28% (down 40 basis points year over year).

Operating income was \$467.8 million compared with \$440.3 million in the year-ago quarter. Operating margin rose to 17.7% from 17.2% in the year-ago quarter. Total selling, general and administrative expenses were \$275.4 million compared with \$260.9 million in the year-ago quarter.

Balance Sheet and Cash Flow

Republic Services exited third-quarter 2019 with cash and cash equivalents of \$55.6 million compared with \$72.5 million at the end of the prior quarter. Long-term debt was \$7.71 billion compared with \$6.88 billion at the end of the previous quarter.

The company generated \$651.3 million of cash from operating activities and capex was \$294.1 million in the reported quarter. Adjusted free cash flow was \$371.7 million. The company spent \$275 million on acquisitions during the reported quarter.

Share Repurchase and Dividend Payout

Republic Services returned \$271 million to shareholders through dividends and share repurchases during the reported quarter.

The company repurchased 1.7 million shares at an aggregate cost of \$150.5 million and at average cost of \$86.88 per share during the reported quarter. As of Sep 30, 2019, the company had \$750.2 million available under its October 2017 share repurchase authorization.

In July 2019, the company paid out \$120.2 million of cash dividend to shareholders of record as of Jul 1. The company paid out quarterly dividend totaling \$129.3 million to shareholders of record as of Oct 1 on Oct 15, 2019.

Concurrent with the earnings release, the company's board of directors declared a quarterly cash dividend of 40.5 per share, payable on Jan 15, 2020, for shareholders of record as of Jan 2, 2020.

2019 Guidance

Republic Services raised its 2019 guidance for adjusted earnings while reaffirmed the same for adjusted free cash flow. The company now expects adjusted earnings in the range of \$3.28-\$3.30 per share compared with the prior guided range of \$3.23-\$3.28. Adjusted free cash flow is anticipated in the range of \$1,125-\$1,175 million

2020 Guidance

Republic Services provided a preliminary guidance for 2020. The company expects adjusted diluted earnings per share between \$3.46 and \$3.51. Adjusted free cash flow is anticipated in the range of \$1,150 million to \$1,200 million.

Quarter Ending **09/2019**

| Report Date | Oct 30, 2019 |
|------------------|--------------|
| Sales Surprise | -1.78% |
| EPS Surprise | 7.06% |
| Quarterly EPS | 0.91 |
| Annual EPS (TTM) | 3.23 |

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.

On **Oct 17, 2019**, Republic Services announced that it continues to expand its natural gas-powered fleet while progressing toward its greenhouse gas reduction goals.

Valuation

Republic Services shares are up 25% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 21.9%, 29% and 23.9%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 13.12X, which compares to 11.43X for the Zacks sub-industry, 12.45X for the Zacks sector and 12.25X 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 10.33X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100.00 price target reflects 28.41X 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 | 13.12 | 11.43 | 12.45 | 12.25 |
| | 5-Year High | 13.89 | 12.22 | 12.55 | 12.86 |
| | 5-Year Low | 8.62 | 8.68 | 8.75 | 8.48 |
| | 5-Year Median | 10.33 | 10.25 | 10.42 | 10.68 |
| P/E F 12M | Current | 26.92 | 26.98 | 25.92 | 18.94 |
| | 5-Year High | 28.55 | 26.98 | 25.92 | 19.34 |
| | 5-Year Low | 18.39 | 19.88 | 18.77 | 15.18 |
| | 5-Year Median | 23.08 | 22.47 | 20.56 | 17.45 |
| P/S F 12M | Current | 2.79 | 2.47 | 4.12 | 3.52 |
| | 5-Year High | 2.79 | 2.47 | 5.13 | 2.52 |
| | 5-Year Low | 1.48 | 1.69 | 3.09 | 2.54 |
| | 5-Year Median | 2.13 | 2.05 | 3.63 | 3 |

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 36% (93 out of 255)



Top Peers

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

| Industry Comparison Industry: Waste Removal Services | | | | Industry Peers | | |
|--|-------------|------------|-----------|----------------|-------------|------------|
| | RSG Neutral | X Industry | S&P 500 | SRCL Neutral | WCN Neutral | WM Neutral |
| VGM Score | B | - | - | D | C | C |
| Market Cap | 30.20 B | 169.33 M | 23.86 B | 5.73 B | 25.98 B | 51.41 B |
| # of Analysts | 8 | 4.5 | 13 | 8 | 8 | 8 |
| Dividend Yield | 1.71% | 0.00% | 1.81% | 0.00% | 0.75% | 1.69% |
| Value Score | C | - | - | D | D | C |
| Cash/Price | 0.00 | 0.02 | 0.04 | 0.01 | 0.01 | 0.06 |
| EV/EBITDA | 13.43 | 11.62 | 13.94 | 99.18 | 19.79 | 14.26 |
| PEG Ratio | 2.86 | 3.19 | 2.00 | 2.71 | 3.80 | 3.15 |
| Price/Book (P/B) | 3.79 | 2.72 | 3.25 | 2.31 | 3.82 | 7.58 |
| Price/Cash Flow (P/CF) | 14.43 | 12.46 | 13.46 | 8.54 | 19.25 | 15.26 |
| P/E (F1) | 27.12 | 31.25 | 18.67 | 21.65 | 33.42 | 25.99 |
| Price/Sales (P/S) | 2.95 | 1.82 | 2.62 | 1.71 | 4.91 | 3.33 |
| Earnings Yield | 3.69% | 3.19% | 5.35% | 4.63% | 2.99% | 3.85% |
| Debt/Equity | 0.97 | 0.95 | 0.72 | 1.19 | 0.63 | 1.94 |
| Cash Flow (\$/share) | 6.56 | 0.59 | 6.92 | 7.37 | 5.12 | 7.94 |
| Growth Score | B | - | - | C | B | B |
| Hist. EPS Growth (3-5 yrs) | 11.90% | 8.88% | 10.68% | -4.33% | 10.68% | 14.09% |
| Proj. EPS Growth (F1/F0) | 5.39% | 10.80% | 7.51% | 10.63% | 10.97% | 6.39% |
| Curr. Cash Flow Growth | 9.81% | 10.56% | 13.40% | 3.81% | 12.02% | 17.01% |
| Hist. Cash Flow Growth (3-5 yrs) | 4.98% | 5.15% | 8.78% | 9.90% | 26.04% | 2.95% |
| Current Ratio | 0.49 | 0.94 | 1.22 | 0.94 | 1.11 | 1.86 |
| Debt/Capital | 49.13% | 49.13% | 42.92% | 54.25% | 38.48% | 65.95% |
| Net Margin | 10.58% | -0.06% | 11.39% | -13.26% | 10.70% | 11.35% |
| Return on Equity | 13.13% | 4.26% | 17.19% | 10.52% | 10.62% | 28.63% |
| Sales/Assets | 0.47 | 0.50 | 0.54 | 0.50 | 0.41 | 0.62 |
| Proj. Sales Growth (F1/F0) | 4.43% | 4.46% | 4.09% | 0.18% | 8.06% | 4.46% |
| Momentum Score | C | - | - | D | A | D |
| Daily Price Chg | 0.00% | 0.00% | -1.40% | 0.19% | 0.10% | 0.16% |
| 1 Week Price Chg | 1.26% | 0.20% | -1.09% | -0.90% | 0.25% | 1.13% |
| 4 Week Price Chg | 5.16% | 2.37% | -0.25% | -2.06% | 8.74% | 6.52% |
| 12 Week Price Chg | 9.77% | 6.84% | 3.64% | 4.31% | 9.50% | 9.36% |
| 52 Week Price Chg | 24.97% | -1.14% | 18.08% | 45.37% | 22.17% | 28.24% |
| 20 Day Average Volume | 995,918 | 87,341 | 1,615,215 | 422,010 | 620,308 | 1,430,935 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.19% | 0.19% |
| (F1) EPS Est 4 week change | 0.40% | 0.00% | 0.00% | -1.02% | 0.91% | 0.15% |
| (F1) EPS Est 12 week change | -1.99% | -1.99% | -0.17% | -5.74% | -0.41% | 0.34% |
| (Q1) EPS Est Mthly Chg | 1.36% | 0.13% | 0.00% | -0.26% | 1.09% | 0.26% |

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 | C |
| Growth Score | B |
| Momentum Score | C |
| 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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