

Waste Management, Inc. (WM)

\$108.98 (As of 08/03/20)

Price Target (6-12 Months): **\$116.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Waste Management continues to execute its core operating initiatives of focused differentiation and continuous improvement and instill price and cost discipline to achieve better margins. Strength across traditional solid waste business continues to boost the company's cash and earnings. Successful cost-reduction initiatives have helped it achieve EBITDA growth. The company's shareholder-friendly moves boost investors' confidence and positively impact earnings per share. On the flip side, shares of Waste Management have declined over the past year, partly due to lower-than-expected revenue performance in two of the last four quarters. Seasonality and a highly competitive and consolidated waste industry continue to act as major concerns for the company. High debt may limit the company's future expansion and worsen its risk profile.

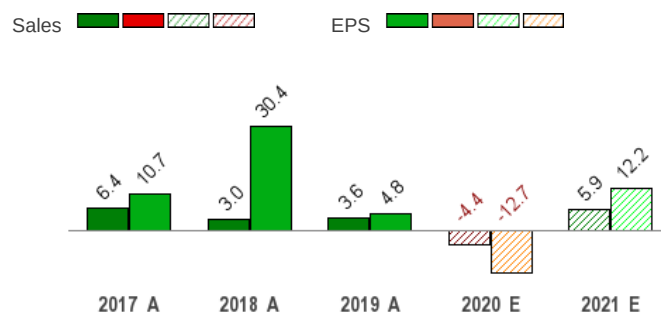
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.79 - \$85.34
20 Day Average Volume (sh)	1,660,418
Market Cap	\$46.0 B
YTD Price Change	-4.4%
Beta	0.73
Dividend / Div Yld	\$2.18 / 2.0%
Industry	Waste Removal Services
Zacks Industry Rank	Top 15% (38 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	3.6%
Expected Report Date	10/28/2020
Earnings ESP	-0.6%
P/E TTM	26.0
P/E F1	28.4
PEG F1	3.3
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,847 E	4,146 E	4,160 E	4,117 E	15,659 E
2020	3,729 A	3,561 A	3,707 E	3,764 E	14,780 E
2019	3,696 A	3,946 A	3,967 A	3,846 A	15,455 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.99 E	\$1.13 E	\$1.18 E	\$1.22 E	\$4.31 E
2020	\$0.93 A	\$0.88 A	\$1.02 E	\$1.07 E	\$3.84 E
2019	\$0.94 A	\$1.11 A	\$1.19 A	\$1.19 A	\$4.40 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Headquartered in Houston, Texas, Waste Management Inc. is a leading provider of comprehensive waste management services in North America. The company provides collection, transfer, recycling and resource recovery, as well as disposal services to residential, commercial, industrial and municipal customers. It is also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

Waste Management provides collection services that include picking up and transporting waste and recyclable materials from the point of generation to a transfer station, disposal site or material recovery facility (MRF). The company owns, develops, and operates landfill gas-to-energy facilities in the United States. It owns and operates transfer stations.

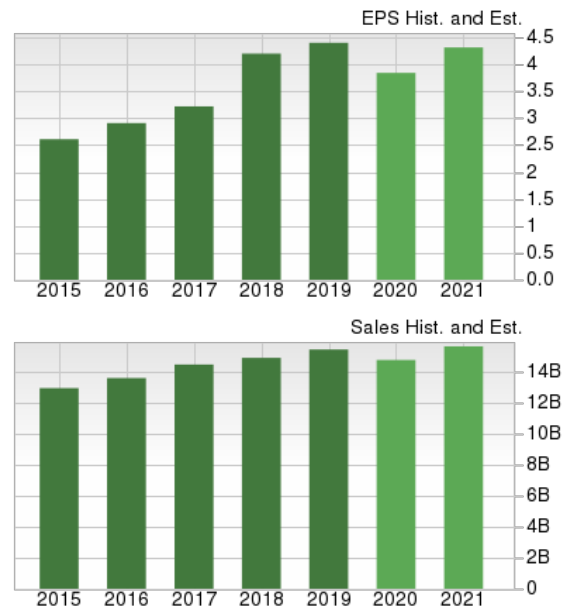
Waste Management also provides materials processing, commodities recycling and recycling brokerage services. It also offers construction and remediation services; services associated with the disposal of fly ash and residue, in-plant services comprising full-service waste management solutions and consulting services; and specialized disposal services for oil and gas exploration and production operations.

The company faces intense competition from governmental, quasi-governmental and private organizations in all aspects of its operations. It competes mainly with large national waste management companies, municipalities and counties that manage their own waste collection and disposal operations. It also competes with regional and local companies of different sizes and financial resources.

Waste Management's operating revenues remain higher in summer months, mainly due to higher construction and demolition waste volumes. Also, in certain regions, volumes industrial and residential waste increase during summer months. Hence, revenues in second and third quarters are significantly higher than first and fourth quarters.

As of Dec 31, 2019, Waste Management had roughly 44,900 full-time employees. Around 8,600 were in administrative and sales positions and the rest in operations. Approximately 8,400 employees were covered by collective bargaining agreements.

Formerly known as USA Waste Services, Inc., the company changed name to Waste Management, Inc. in 1998.



Reasons To Buy:

- ▲ The waste management industry stands to benefit from the growing adoption of advanced **waste collection and recycling techniques**. Increasing environmental concerns, rapid industrialization, increase in population and expected increase in non-hazardous waste as a result of rapid economic growth are expected to enhance business opportunities for the waste management companies. The companies are increasingly undertaking municipal solid waste and non-hazardous industrial waste recycling measures. Furthermore, government initiatives to introduce sustainable waste management mechanisms, reduce greenhouse gas emissions and put a check on illegal dumping are also expected to drive demand. The Environmental Protection Agency's (EPA) Resource Conservation and Recovery Act (RCRA), aimed at reducing open dumping and managing hazardous and non-hazardous waste, will significantly benefit the industry. Per a report from statista, the global waste management market is expected to reach \$530 billion in 2025, which indicates a significant upside from \$330.6 billion revenues in 2017. All these factors bode well for Waste Management.
- ▲ Waste Management continues to **execute its core operating objectives** of focused differentiation and continuous improvement, and instill price and cost discipline to achieve better margins. Focused differentiation through capitalization of extensive assets ensures profitable growth and competitive advantages. The company's successful cost-reduction initiatives have helped it in accomplishing remarkable gross margin expansion and EBITDA growth over the quarters. The acquisition of Anderson Rubbish Disposal and Moorpark Rubbish Disposal will help the company to strengthen its existing operations. A steady stream of such accretive acquisitions is likely to drive future earnings of the company.
- ▲ Waste Management's **traditional solid waste business** is in great shape. Strong performance in this business continues to increase cash and earnings of the company. Waste Management expects yield momentum to continue in its solid waste lines of business.
- ▲ Waste Management has a dominant market capitalization and a **steady dividend as well as share repurchase policy**. In 2019, 2018 and 2017, the company had repurchased shares worth \$248 million, \$1.004 billion and \$750 million, respectively. It paid \$876 million, \$802 million and \$750 million in dividends during 2019, 2018 and 2017, respectively. Waste Management plans to return significant cash to shareholders through healthy dividends and share repurchases in the future as well. These initiatives not only instill investors' confidence but also positively impact earnings per share.

Waste Management continues to execute its core operating initiatives and its solid waste business is in great shape.

Reasons To Sell:

- ▼ Waste Management operates in a **highly competitive and consolidated waste industry**. National, regional and local companies give tough competition to the company. Counties and 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 becomes difficult in such a fiercely competitive situation, thereby weighing on the company's top line.
- ▼ **Seasonality causes considerable fluctuations** in Waste Management's revenues. Revenues in first and fourth quarters are significantly lower than second and third quarters. This is because construction and demolition waste volumes and industrial and residential waste volumes are typically low during periods other than summer.
- ▼ Waste Management's total debt to capital ratio of 0.67 at the end of first-quarter 2020 was higher than the industry's 0.66. The increasing debt to capitalization ratio indicates that the **proportion of debt to finance the company's assets is on the rise**. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$3.1 billion at the end of the first quarter was well below the long-term debt level of \$13.1 billion, 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 \$387 million.
- ▼ Waste Management's **shares have declined** 4.2% over the past year. The loss partly reflects lower-than-expected revenue performance in two of last four quarters.

Stiff competition, seasonality and high debt act as major headwinds to Waste Management.

Last Earnings Report

Waste Management Beats Q2 Earnings & Revenue Estimates

Waste Management reported better-than-expected second-quarter 2020 results.

Adjusted earnings per share of 88 cents beat the Zacks Consensus Estimate by 6% but were down 20.7% year over year. Total revenues of \$3.56 billion beat the consensus estimate by 1.8% but decreased 9.8% year over year.

In the reported quarter, revenues declined \$331 million in the company's collection and disposal business due to \$386 million worth of volume declines, which were partially offset by \$55 million of yield growth.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	1.85%
EPS Surprise	6.02%
Quarterly EPS	0.88
Annual EPS (TTM)	4.19

Quarterly Numbers in Detail

The Collection segment recorded revenues of \$2.33 billion, down 9.6% from the prior-year quarter's figure. Landfill segment's top line decreased 14.6% year over year to \$874 million. Total revenues in the Transfer segment were down 7.4% to \$439 million. Recycling segment revenues improved 4.2% to \$275 million. Other businesses' revenues totaled \$409 million, down 8.1% year over year.

Adjusted operating EBITDA of \$1.03 billion decreased 8.8% from the year-ago quarter's level. Adjusted operating EBITDA margin rose to 28.8% from 28.7% in the prior-year quarter.

Operating income came in at \$527 million compared with \$696 million in the year-ago quarter. Operating income margin decreased to 14.8% from 17.6% in the year-ago quarter.

Waste Management exited second-quarter 2020 with cash and cash equivalents of \$2.66 billion compared with \$3.13 billion at the end of the prior quarter. Long-term debt was \$9.59 billion compared with \$13.1 billion at the end of the prior quarter.

The company generated \$856 million of cash from operating activities and capital expenditure was \$436 million. Free cash flow was \$423 million.

The company paid out dividends worth \$230 million. The company has temporarily suspended its share-repurchase program through the end of the year in order to preserve cash amid uncertainty prevailing in the market due to the coronavirus outbreak.

2020 Guidance

Waste Management expects total revenues for 2020 to decline between 4% and 5%. Adjusted operating EBITDA margin is anticipated in the range of 28-28.5%, considering solid performance in the second quarter of 2020 and improved volume outlook. Capital expenditures are expected to be between \$1.55 and \$1.65 billion, and free cash flow is estimated to be around \$2 billion.

Recent News

On **Jun 24, 2020**, Waste Management and Advanced Disposal announced revision of terms of the definitive agreement per which all outstanding shares of the latter will be purchased in cash by a subsidiary of Waste Management. The revised value of the deal is \$30.3 per share, representing total enterprise value of \$4.6 billion, including around \$1.8 billion of Advanced Disposal's net debt. The deal's previous value, when announced on Apr 15, was \$33.15 per share, representing total enterprise value of \$4.9 billion including around \$1.9 billion of Advanced Disposal's net debt.

On **May 13, 2020**, Waste Management declared a quarterly cash dividend of 54.5 cents per share payable on Jun 19, 2020 to stockholders of record on Jun 5, 2020.

Valuation

Waste Management shares are down 4.4% in the year-to-date period and 4.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Business Services sector are down 16.4% and 0.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 13.7% while the sector is up 6.8%.

The S&P 500 index is up 2.3% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 12.85X, which compares to 10.09X for the Zacks sub-industry, 12.56X for the Zacks sector and 12.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.84X and as low as 8.27X, with a 5-year median of 11.47X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$116.00 price target reflects 28.5X forward 12-month earnings.

The table below shows summary valuation data for WM

Valuation Multiples - WM					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.85	10.09	12.56	12.76
	5-Year High	13.84	12.3	13.36	12.85
	5-Year Low	8.27	8.61	8.6	8.24
	5-Year Median	11.47	10.32	10.63	10.89
P/E F 12M	Current	26.8	31.61	30.12	22.59
	5-Year High	28.73	32.97	30.12	22.59
	5-Year Low	18.39	20.02	18.7	15.25
	5-Year Median	22.24	23.52	20.93	17.55
P/S F12M	Current	3.01	2.36	4.18	3.6
	5-Year High	3.28	2.51	4.18	3.6
	5-Year Low	1.65	1.72	3.07	2.53
	5-Year Median	2.37	2.1	3.59	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Advanced Disposal Services Inc. (ADSW)	Neutral	3
Clean Harbors, Inc. (CLH)	Neutral	2
Casella Waste Systems, Inc. (CWST)	Neutral	2
US Ecology, Inc. (ECOL)	Neutral	2
Republic Services, Inc. (RSG)	Neutral	2
Stericycle, Inc. (SRCL)	Neutral	3
Waste Connections, Inc. (WCN)	Neutral	3
Covanta Holding Corporation (CVA)	Underperform	3

Industry Comparison Industry: Waste Removal Services				Industry Peers		
	WM	X Industry	S&P 500	RSG	SRCL	WCN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	C	C	B
Market Cap	46.04 B	501.69 M	22.67 B	27.83 B	5.64 B	26.53 B
# of Analysts	8	5	13.5	9	8	9
Dividend Yield	2.00%	0.00%	1.77%	1.85%	0.00%	0.73%
Value Score	B	-	-	C	C	D
Cash/Price	0.06	0.10	0.07	0.01	0.01	0.04
EV/EBITDA	12.65	10.81	13.08	12.99	32.88	19.05
PEG Ratio	3.30	4.86	2.94	4.57	5.16	4.86
Price/Book (P/B)	6.68	1.63	3.10	3.44	2.47	3.97
Price/Cash Flow (P/CF)	13.01	9.36	12.34	12.70	7.57	18.12
P/E (F1)	28.26	41.71	21.71	30.37	32.77	41.78
Price/Sales (P/S)	3.05	1.73	2.46	2.68	1.73	4.83
Earnings Yield	3.52%	1.63%	4.38%	3.29%	3.05%	2.40%
Debt/Equity	1.39	0.78	0.75	1.10	1.24	0.78
Cash Flow (\$/share)	8.38	0.28	6.94	6.89	8.14	5.57
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	14.03%	12.97%	10.46%	13.07%	-9.04%	12.97%
Proj. EPS Growth (F1/F0)	-12.70%	-12.50%	-7.08%	-13.81%	-29.01%	-11.19%
Curr. Cash Flow Growth	4.96%	3.25%	5.47%	3.25%	-27.67%	8.62%
Hist. Cash Flow Growth (3-5 yrs)	6.90%	5.98%	8.55%	5.45%	9.45%	28.79%
Current Ratio	0.88	1.03	1.32	0.89	1.47	1.98
Debt/Capital	58.20%	53.94%	44.21%	52.44%	55.45%	43.70%
Net Margin	10.66%	-10.08%	10.25%	10.45%	-10.08%	10.63%
Return on Equity	25.84%	4.90%	14.72%	13.47%	9.80%	10.71%
Sales/Assets	0.56	0.50	0.52	0.46	0.50	0.40
Proj. Sales Growth (F1/F0)	-4.85%	0.00%	-1.79%	-2.95%	-18.63%	-0.59%
Momentum Score	A	-	-	A	D	A
Daily Price Chg	-0.57%	0.21%	0.27%	0.21%	2.01%	-1.42%
1 Week Price Chg	2.16%	0.44%	0.14%	2.61%	-0.93%	2.96%
4 Week Price Chg	3.58%	3.60%	2.96%	7.18%	10.62%	9.09%
12 Week Price Chg	8.44%	10.24%	10.90%	6.56%	18.90%	7.84%
52 Week Price Chg	-4.21%	-8.12%	2.35%	0.64%	40.56%	13.92%
20 Day Average Volume	1,660,418	174,936	2,043,624	988,699	336,821	747,311
(F1) EPS Est 1 week change	2.60%	0.00%	0.00%	0.74%	0.00%	1.49%
(F1) EPS Est 4 week change	3.61%	0.00%	0.82%	3.43%	0.00%	4.27%
(F1) EPS Est 12 week change	5.67%	4.59%	0.59%	4.59%	-27.81%	-1.09%
(Q1) EPS Est Mthly Chg	5.42%	2.47%	0.25%	2.47%	0.00%	7.75%

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	B
Momentum Score	A
VGM Score	A

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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