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Jan 06, 2020

Waste Management, Inc. (WM)

$115.33 (As of 01/03/20)

Price Target (6-12 Months): **$122.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/14/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: C	

Summary

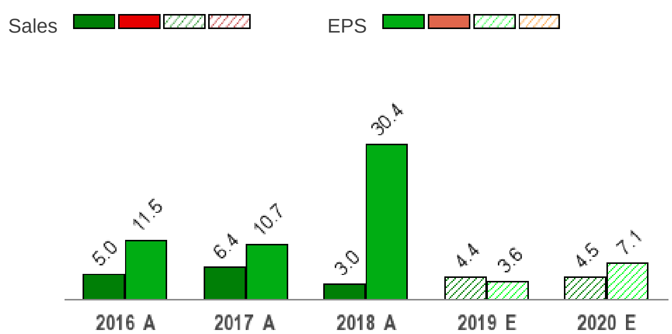
Waste Management continues to execute its core operating initiatives of focused differentiation and continuous improvement and instill price and cost discipline to achieve better margins. Strength across its traditional solid waste business continues to boost cash and earnings. Successful cost-reduction initiatives have helped it achieve EBITDA growth. The company's shareholder-friendly moves boost investors' confidence and positively impact earnings per share and consequently its share price, which has outperformed its industry in the past year. However, seasonality causes fluctuations in the company's revenues. High debt may limit its future expansion and worsen its risk profile. Stiff competition is a concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$121.77 - $90.45**
20 Day Average Volume (sh)	**1,347,919**
Market Cap	**$48.9 B**
YTD Price Change	**1.2%**
Beta	**0.60**
Dividend / Div Yld	**$2.05 / 1.8%**
Industry	**Waste Removal Services**
Zacks Industry Rank	**Top 31% (79 out of 252)**
Last EPS Surprise	**2.6%**
Last Sales Surprise	**-0.8%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**26.4**
P/E F1	**24.8**
PEG F1	**2.9**
P/S TTM	**3.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	3,814 E	4,104 E	4,151 E	4,142 E	16,265 E
2019	3,696 A	3,946 A	3,967 A	3,947 E	15,567 E
2018	3,511 A	3,739 A	3,822 A	3,842 A	14,914 A

EPS Estimates

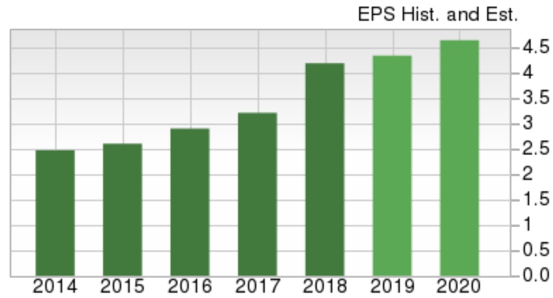
	Q1	Q2	Q3	Q4	Annual*
2020	$0.98 E	$1.18 E	$1.23 E	$1.26 E	$4.66 E
2019	$0.94 A	$1.11 A	$1.19 A	$1.13 E	$4.35 E
2018	$0.91 A	$1.01 A	$1.15 A	$1.13 A	$4.20 A

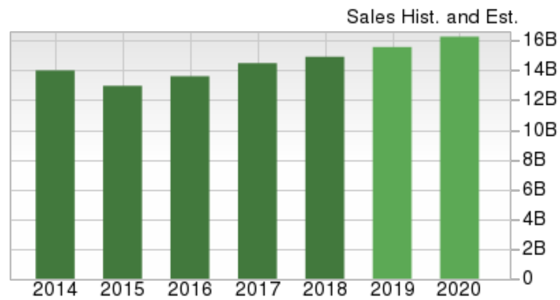
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

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, 2018, Waste Management had roughly 43,700 full-time employees. Around 8,200 were in administrative and sales positions and the rest in operations. Approximately 8,300 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:

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

- 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**. During the first nine months of 2019, Waste Management paid out dividends worth $658 million and repurchased shares worth $248 million. In 2018, 2017 and 2016, the company had repurchased shares worth $1.004 billion, $750 million and $725 million, respectively. It paid $802 million, $750 million and $726 million in dividends during 2018, 2017 and 2016, 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. This might have positively impacted the company's share price, which has improved 29% over the past year, outperforming the 23.9% rise of the industry it belongs to.

Reasons To Sell:

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

- 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 **balance sheet is highly leveraged**. As of Sep 30, 2019, long-term debt was $13.15 billion while cash and cash equivalents were $2.92 billion. Such a cash position implies that the company needs to generate an adequate amount of operating cash flow to pay its debt. Moreover, a high debt may limit its future expansion and worsen its risk profile.

Last Earnings Report

Waste Management Tops Q3 Earnings

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	-0.78%
EPS Surprise	2.59%
Quarterly EPS	1.19
Annual EPS (TTM)	4.37

Waste Management reported mixed third-quarter 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

Adjusted earnings per share of $1.19 beat the consensus mark by 3 cents and were higher than the year-ago quarter by 4 cents. Total revenues of $3.96 billion missed the consensus estimate by $31 million but increased 3.8% year over year.

The top line benefited from strong yield and volume growth in the company's collection and disposal business, which contributed $198 million of incremental revenues.

Internal revenue growth from yield for collection and disposal operations was 2.6% compared with 2.5% in the year-ago quarter. Collection and disposal business internal revenue growth from volume was 3.3% in third-quarter 2019. Total company internal revenue growth from volume, which includes recycling and other ancillary businesses, was 2.6%.

Quarterly Numbers in Detail

The Collection segment recorded revenues of $2.63 billion, up 5.6% from the prior-year quarter's figure. Landfill segment's top line increased 7.2% year over year to $993 million. Total revenues in the Transfer segment were up 5.8% to $471 million. Recycling segment revenues declined 27.3% to $245 million. Other businesses' revenues totaled $469 million, up 9.1% year over year.

Adjusted operating EBITDA of $1.14 billion increased 3.1% from the year-ago quarter's level. Adjusted operating EBITDA margin decreased to 28.8% from 28.9% in the year-ago quarter. Operating income came in at $734 million compared with $699 million in the year-ago quarter. Operating income margin increased to 18.5% from 18.3% in the year-ago quarter.

Waste Management exited third-quarter 2019 with cash and cash equivalents of $2.92 billion compared with $2.25 billion at the end of the prior quarter. Long-term debt was $13.15 billion compared with $12.62 billion at the end of the prior quarter.

The company generated $953 million of cash from operating activities and capital expenditure was $483 million. Free cash flow was $478 million compared with $480 million in the prior-year quarter. The company paid out dividends worth $218 million in third-quarter 2019. It spent $76 million on acquisitions of traditional solid waste businesses during the reported quarter.

2019 Guidance

Waste Management reaffirmed its full-year 2019 guidance. The company continues to expect adjusted EPS in the range of $4.28-$4.38. Adjusted operating EBITDA is expected in the range of $4.40-$4.45 billion. Free cash flow is anticipated between $2.025 and $2.075 billion.

Recent News

On **Dec 17, 2019,** Waste Management announced approval of a 6.3% increase in the planned quarterly dividend rate for 2020. The Company also confirmed that it has $1.32 billion remaining on its existing authorization to repurchase shares.

On **Nov 20, 2019**, Waste Management declared a quarterly cash dividend of 51.25 cents per share to be paid out on Dec 20, 2019 to stockholders of record on Dec 6.

Valuation

Waste Management shares are up 1.2% in the year-to-date period and 29% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 0.7% and 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.9% and 29.6%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and 28.5% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 13.01X, which compares to 11.01X for the Zacks sub-industry, 11.98X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.72X and as low as 7.93X, with a 5-year median of 10.84X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $122.00 price target reflects 26.18X 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	13.01	11.01	11.98	11.99
	5-Year High	13.72	12.22	12.56	12.86
	5-Year Low	7.93	8.68	8.75	8.48
	5-Year Median	10.84	10.24	10.38	10.67
P/E F 12M	Current	24.74	25.92	24.47	18.71
	5-Year High	27.49	26.28	24.49	19.34
	5-Year Low	17.94	19.88	18.76	15.17
	5-Year Median	21.41	22.47	20.56	17.44
P/S F12M	Current	3.01	2.36	3.87	3.47
	5-Year High	3.18	2.42	5.13	3.47
	5-Year Low	1.59	1.69	3.09	2.54
	5-Year Median	2.26	2.05	3.63	3

As of 01/03/2020

Industry Analysis **Zacks Industry Rank:** Top 31% (79 out of 252)

Top Peers

Advanced Disposal Services Inc. **(ADSW)**	Outperform
Clean Harbors, Inc. **(CLH)**	Neutral
Covanta Holding Corporation **(CVA)**	Neutral
Casella Waste Systems, Inc. **(CWST)**	Neutral
Republic Services, Inc. **(RSG)**	Neutral
Stericycle, Inc. **(SRCL)**	Neutral
Waste Connections, Inc. **(WCN)**	Neutral
US Ecology, Inc. **(ECOL)**	Underperform

Industry Comparison Industry: Waste Removal Services

Industry Peers

	WM Neutral	X Industry	S&P 500	RSG Neutral	SRCL Neutral	WCN Neutral
VGM Score	B	-	-	B	C	C
Market Cap	48.93 B	42.39 M	23.66 B	28.79 B	5.65 B	24.15 B
# of Analysts	7	4.5	13	7	8	8
Dividend Yield	1.78%	0.00%	1.79%	1.80%	0.00%	0.81%
Value Score	C	-	-	C	C	D
Cash/Price	0.06	0.04	0.04	0.00	0.01	0.01
EV/EBITDA	13.69	11.62	13.88	12.93	98.21	18.58
PEG Ratio	2.89	3.05	1.99	3.09	2.64	3.56
Price/Book (P/B)	7.21	3.20	3.36	3.61	2.28	3.55
Price/Cash Flow (P/CF)	14.53	12.91	13.62	13.76	8.41	17.89
P/E (F1)	24.70	25.92	18.74	25.93	21.16	31.29
Price/Sales (P/S)	3.17	1.95	2.67	2.81	1.68	4.57
Earnings Yield	4.04%	3.77%	5.32%	3.86%	4.73%	3.20%
Debt/Equity	1.94	0.95	0.72	0.97	1.19	0.63
Cash Flow ($/share)	7.94	0.73	6.94	6.56	7.37	5.12
Growth Score	B	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	14.09%	8.88%	10.56%	11.90%	-4.33%	10.68%
Proj. EPS Growth (F1/F0)	6.99%	11.14%	7.41%	5.92%	11.52%	11.00%
Curr. Cash Flow Growth	17.01%	11.29%	14.83%	9.81%	3.81%	12.02%
Hist. Cash Flow Growth (3-5 yrs)	2.95%	5.32%	9.00%	4.98%	9.90%	26.04%
Current Ratio	1.86	0.94	1.23	0.49	0.94	1.11
Debt/Capital	65.95%	49.13%	42.92%	49.13%	54.25%	38.48%
Net Margin	11.35%	-0.03%	11.08%	10.58%	-13.26%	10.70%
Return on Equity	28.63%	4.26%	17.10%	13.13%	10.52%	10.62%
Sales/Assets	0.62	0.56	0.55	0.47	0.50	0.41
Proj. Sales Growth (F1/F0)	4.48%	4.48%	4.20%	4.39%	0.18%	7.06%
Momentum Score	C	-	-	B	D	B
Daily Price Chg	0.97%	0.00%	-0.61%	0.42%	-1.10%	-0.14%
1 Week Price Chg	0.65%	0.09%	0.13%	1.09%	0.69%	0.18%
4 Week Price Chg	3.46%	2.01%	2.60%	2.22%	-4.56%	0.87%
12 Week Price Chg	-1.80%	1.04%	8.87%	3.84%	25.19%	-0.82%
52 Week Price Chg	30.35%	-6.96%	29.34%	26.42%	66.72%	24.97%
20 Day Average Volume	1,347,919	51,220	1,603,615	908,231	548,201	677,678
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.23%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.01%	-3.32%	-0.57%	-2.10%	-5.60%	-5.11%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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.

Disclosures

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