

Waste Management, Inc. (WM)

\$112.07 (As of 03/09/20)

Price Target (6-12 Months): **\$119.00**

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:C

Value: D

Growth: A

Momentum: F

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. On the flip side, shares of Waste Management have underperformed its industry in the past year, partly due to lower-than-expected revenue performance in the last two 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.

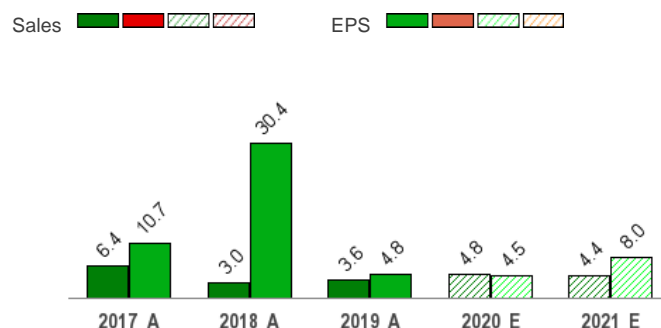
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.79 - \$97.55
20 Day Average Volume (sh)	2,747,519
Market Cap	\$47.6 B
YTD Price Change	-1.7%
Beta	0.65
Dividend / Div Yld	\$2.18 / 1.9%
Industry	Waste Removal Services
Zacks Industry Rank	Top 38% (95 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	04/23/2020
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,012 E	4,300 E	4,343 E	4,230 E	16,914 E
2020	3,782 E	4,118 E	4,190 E	4,098 E	16,201 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	\$1.08 E	\$1.28 E	\$1.36 E	\$1.28 E	\$4.97 E
2020	\$1.00 E	\$1.18 E	\$1.24 E	\$1.21 E	\$4.60 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.

P/E TTM	25.3
P/E F1	24.4
PEG F1	2.9
P/S TTM	3.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

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.

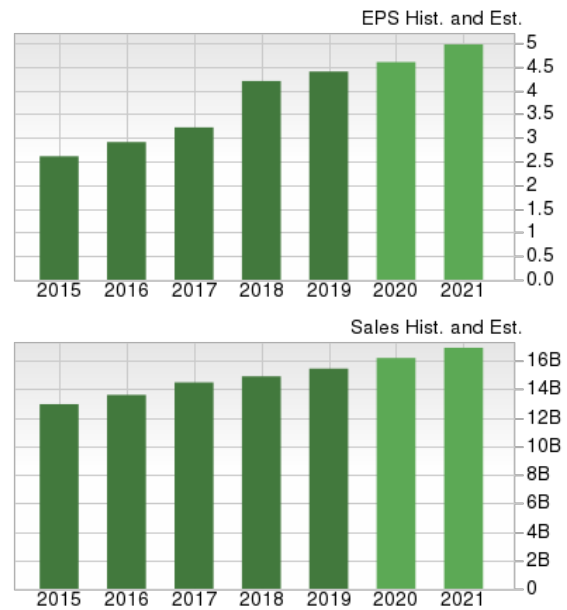
Waste Management also provides materials processing, commodities recycling and recycling brokerage services. It also offers construction and remediation services; services associated with the disposal of fly ash and residue, in-plant services comprising full-service waste management solutions and consulting 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 **balance sheet is highly leveraged**. As of Dec 31, 2019, long-term debt was \$13.28 billion while cash and cash equivalents were \$3.56 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.
- ▼ Waste Management's shares have underperformed the industry in the past year, gaining 12.2% compared with the industry's rise of 12.6%. The **underperformance** partly reflects lower-than-expected revenue performance in the last two quarters.

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

Last Earnings Report

Waste Management Surpasses Q4 Earnings Estimates, Lags Revenues

Waste Management reported mixed fourth-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 1.7% and were up 5.3% year over year. Total revenues of \$3.85 billion missed the consensus estimate by 2.6% but increased slightly year over year.

The top line benefited from growth in the company's collection and disposal business, which contributed \$88 million of incremental revenues.

Internal revenue growth from yield for collection and disposal operations was 3.2% compared with 2.3% in the year-ago quarter. Collection and disposal business internal revenue growth from volume was a negative 0.6%. Total company internal revenue growth from volume, which includes recycling and other ancillary businesses, was a negative 0.4%.

Quarterly Numbers in Detail

The Collection segment recorded revenues of \$2.59 billion, up 3.9% from the prior-year quarter's figure. Landfill segment's top line increased 5.7% year over year to \$966 million. Total revenues in the Transfer segment were up 2% to \$463 million. Recycling segment revenues declined 29.2% to \$240 million. Other businesses' revenues totaled \$413 million, down 6.1% year over year.

Adjusted operating EBITDA of \$1.12 billion increased 2.6% from the year-ago quarter's level. Adjusted operating EBITDA margin improved 70 basis points (bps) year over year.

Operating income came in at \$655 million compared with \$767 million in the year-ago quarter. Operating income margin decreased to 17% from 20% in the year-ago quarter.

Waste Management exited fourth-quarter 2019 with cash and cash equivalents of \$3.56 billion compared with \$2.92 billion at the end of the prior quarter. Long-term debt was \$13.28 billion compared with \$13.15 billion at the end of the prior quarter.

The company generated \$1.02 billion of cash from operating activities and capital expenditure was \$286 million. Free cash flow was \$756 million compared with \$478 million in the prior-year quarter.

The company paid out dividends worth \$218 million in fourth-quarter 2019. It spent \$9 million on acquisitions of solid waste businesses during the reported quarter.

2020 Guidance

Waste Management expects adjusted operating EBITDA of \$4.56-\$4.66 billion. Internal revenue growth from volume is expected to be around 1.5%. Free cash flow is anticipated between \$2.15 billion and \$2.25 billion.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-2.64%
EPS Surprise	1.71%
Quarterly EPS	1.19
Annual EPS (TTM)	4.43

Recent News

On **Feb 28, 2020**, Waste Management announced that it has been honoured as one of the 2020 World's Most Ethical Companies by Ethisphere for the 11th time.

On **Feb 18, 2020**, Waste Management declared a quarterly cash dividend of 54.5 cents per share payable on Mar 20, 2020 to stockholders of record on Mar 6, 2020.

Valuation

Waste Management shares are up 12.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 12.6% and 6.5%, respectively, over the past year.

The S&P 500 index is up 5.6% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 13X, which compares to 11.18X for the Zacks sub-industry, 10.99X for the Zacks sector and 11.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.79X and as low as 7.93X, with a 5-year median of 10.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$119.00 price target reflects 25.48X 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	11.18	10.99	11.04
	5-Year High	13.79	12.21	12.57	12.87
	5-Year Low	7.93	8.68	8.77	8.49
	5-Year Median	10.94	10.26	10.42	10.79
P/E F 12M	Current	23.99	26.46	23.01	17.02
	5-Year High	27.49	26.88	25.27	19.34
	5-Year Low	17.94	19.88	18.89	15.18
	5-Year Median	21.65	22.69	20.59	17.42
P/S F 12M	Current	2.91	2.41	3.65	3.14
	5-Year High	3.28	2.45	4	3.44
	5-Year Low	1.59	1.69	3.09	2.54
	5-Year Median	2.29	2.06	3.63	3.01

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 253)



Top Peers

Advanced Disposal Services Inc. (ADSW)	Neutral
Clean Harbors, Inc. (CLH)	Neutral
Covanta Holding Corporation (CVA)	Neutral
Republic Services, Inc. (RSG)	Neutral
Stericycle, Inc. (SRCL)	Neutral
Waste Connections, Inc. (WCN)	Neutral
Casella Waste Systems, Inc. (CWST)	Underperform
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	C	-	-	C	F	C
Market Cap	47.60 B	283.72 M	19.13 B	29.37 B	5.00 B	25.43 B
# of Analysts	8	4	13	8	8	9
Dividend Yield	1.95%	0.00%	2.26%	1.76%	0.00%	0.77%
Value Score	D	-	-	D	D	D
Cash/Price	0.07	0.03	0.05	0.00	0.01	0.01
EV/EBITDA	13.69	11.45	11.99	13.19	30.72	18.41
PEG Ratio	2.85	3.01	1.68	3.14	2.42	3.52
Price/Book (P/B)	6.72	1.68	2.64	3.62	2.14	3.67
Price/Cash Flow (P/CF)	13.38	10.64	10.70	13.37	6.73	17.32
P/E (F1)	24.36	24.46	15.44	26.11	20.26	33.01
Price/Sales (P/S)	3.08	1.78	2.05	2.85	1.51	4.72
Earnings Yield	4.10%	3.96%	6.47%	3.84%	4.93%	3.03%
Debt/Equity	1.88	0.80	0.70	0.96	1.25	0.63
Cash Flow (\$/share)	8.38	0.59	7.01	6.89	8.14	5.57
Growth Score	A	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	14.53%	11.38%	10.85%	12.52%	-6.82%	11.81%
Proj. EPS Growth (F1/F0)	4.55%	8.44%	6.25%	5.54%	2.08%	7.43%
Curr. Cash Flow Growth	4.96%	4.96%	6.09%	3.25%	-27.67%	8.62%
Hist. Cash Flow Growth (3-5 yrs)	6.90%	5.38%	8.52%	5.45%	9.45%	28.79%
Current Ratio	1.97	0.93	1.24	0.52	0.93	1.12
Debt/Capital	65.26%	48.86%	42.57%	48.86%	55.53%	38.79%
Net Margin	10.81%	-0.41%	11.69%	10.42%	-10.48%	10.52%
Return on Equity	28.14%	3.82%	16.74%	13.44%	9.70%	10.66%
Sales/Assets	0.59	0.49	0.54	0.46	0.49	0.41
Proj. Sales Growth (F1/F0)	4.83%	4.83%	3.76%	4.55%	-3.35%	7.72%
Momentum Score	F	-	-	D	D	C
Daily Price Chg	-4.32%	-4.25%	-7.65%	-3.64%	-8.76%	-4.25%
1 Week Price Chg	5.70%	0.00%	-0.67%	5.83%	4.58%	4.39%
4 Week Price Chg	-10.37%	-10.37%	-19.26%	-5.92%	-10.81%	-3.50%
12 Week Price Chg	0.04%	0.00%	-17.26%	3.08%	-14.63%	7.61%
52 Week Price Chg	12.24%	-32.66%	-6.83%	17.28%	14.17%	12.77%
20 Day Average Volume	2,747,519	58,313	2,684,709	1,445,741	665,576	1,234,507
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.68%	0.00%
(F1) EPS Est 4 week change	-1.55%	-0.43%	-0.06%	0.71%	-7.00%	-0.87%
(F1) EPS Est 12 week change	-1.20%	0.00%	-0.46%	1.33%	-7.64%	0.03%
(Q1) EPS Est Mthly Chg	1.40%	-0.14%	-0.40%	-1.45%	-0.27%	-0.14%

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	D
Growth Score	A
Momentum Score	F
VGM Score	C

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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