



Ecolab Inc. (ECL)

Updated August 17th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$147	5 Year CAGR Estimate: 4.1%	Volatility Percentile: 3.3%
Fair Value Price: \$108	5 Year Growth Estimate: 9.0%	Momentum Percentile: 50.1%
% Fair Value: 136%	5 Year Valuation Multiple Estimate: -6.0%	Valuation Percentile: 11.7%
Dividend Yield: 1.1%	5 Year Price Target: \$166	Total Return Percentile: 20.4%

Overview & Current Events

Ecolab Inc. is the global leader in water, hygiene and energy technologies and services. The company operates in three major business segments: Global Industrial, Global Institutional, and Global Energy, each of roughly equal size. Ecolab was founded in 1923 and has grown to a market capitalization of \$42 billion and annual revenues of about \$14 billion. With 32 years of consecutive dividend increases, Ecolab qualifies to be a member of the Dividend Aristocrats Index.

In late July, Ecolab reported (7/31/18) financial results for the second quarter of fiscal 2018. The company grew its reported sales by 7% and its acquisition-adjusted, fixed-currency sales by 5%. This revenue growth and a reduced tax rate more than offset the rising delivered product costs and thus resulted in 13% adjusted growth of earnings per share. The strong performance was prominent in all the segments but particularly in the energy segment, which enjoyed 29% growth in its operating income, mostly thanks to increased U.S. onshore activity.

As management expects the strong performance to continue in the second half of the year, it has reaffirmed its guidance for earnings per share \$5.30-\$5.50 this year, thus implying 13%-18% earnings-per-share growth. Management also announced an efficiency initiative, with a goal to achieve \$200 million annual savings by 2021 thanks to improvement of business processes.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.86	\$1.99	\$2.23	\$2.54	\$2.98	\$3.54	\$4.18	\$4.37	\$4.37	\$4.69	\$5.40	\$8.31
DPS	\$0.52	\$0.56	\$0.62	\$0.73	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.67	\$2.50

Ecolab has significantly grown its earnings per share every single year in the last decade, apart from the flat year 2016. This consistent growth record is a testament to the strength of its business model and its execution and reveals that the company is in a reliable growth trajectory.

Ecolab has compounded its adjusted earnings-per-share at a rate of 10.8% per year since 2008. Looking ahead, we believe that a long-term annualized growth rate of 9% is feasible for this high-quality dividend stock. Applying this growth rate to this year's expected earnings per share results in a 2023 earnings-per-share estimate of \$8.31.

Ecolab's growth will largely come from bolt-on acquisitions. The company has historically implemented a strategy of acquiring smaller household products companies and scaling their products through its impressive supply chain. As an example, Ecolab acquired Cascade Water Services in January for an undisclosed sum. Cascade generated 2017 sales of \$35 million and is in the business of selling water treatment programs. We believe additional tuck-in acquisitions are highly likely for Ecolab moving forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.4	19.9	21.1	20.4	21.8	25.4	26.0	25.9	26.3	27.5	27.2	20.0
Avg. Yld.	1.2%	1.4%	1.3%	1.4%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.5%

Ecolab is currently trading at a price-to-earnings ratio of 27.2. Although the company's average price-to-earnings ratio over the last decade has been 23.8, we believe that a fair value for Ecolab is closer to 20 times earnings. If the

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company's valuation reverts to a price-to-earnings ratio of 20 over the next 5 years, this will introduce a 6.0% headwind to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	63.0%	58.2%	63.1%	18.3%	31.0%	31.0%	34.0%	33.9%	34.1%	32.2%	33.0%	35.0%
Debt/A	67.0%	60.1%	56.3%	68.8%	65.4%	62.6%	62.3%	62.9%	62.4%	61.8%	61.0%	63.0%
Int. Cov.	11.7	11.2	13.8	10.3	4.7	6.0	7.7	6.5	7.3	8.0	9.0	9.0
Payout	28.0%	28.1%	27.8%	28.7%	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	30.9%	30.1%
Std. Dev.	46.0%	25.6%	20.3%	26.5%	17.1%	16.7%	16.7%	19.3%	19.6%	10.6%	18.0%	18.0%

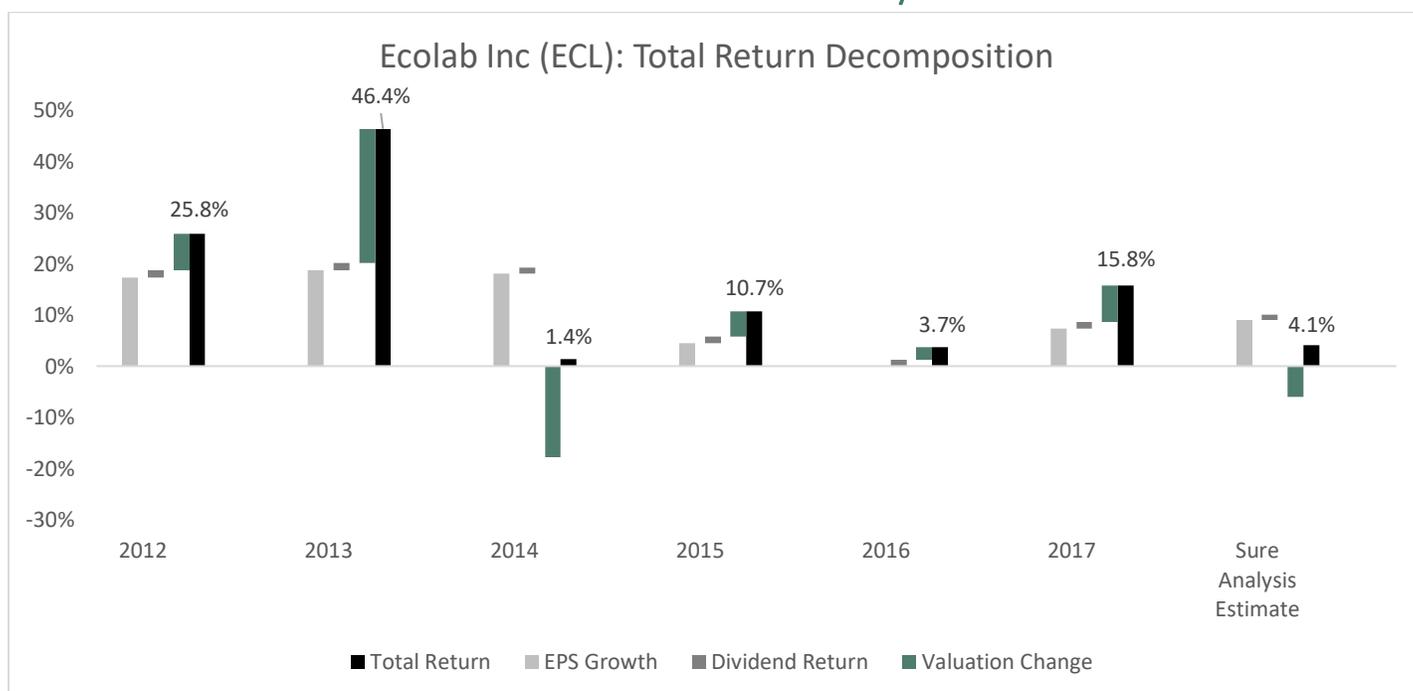
Ecolab's gross profit as a percent of its total assets has declined from its remarkably high figures reported a decade ago. Still, we believe that Ecolab is a very high-quality business and should perform better during recessions than many of its peers in the large capitalization equity universe.

This belief is largely due to the company's various competitive advantages. Ecolab's most compelling competitive strength is its scale, which allows it to aggressively invest in marketing, advertising, and research and development. Ecolab spends more than \$1 billion on research and development each year, which has allowed it to create an intellectual property portfolio that contains more than 7,700 patents. As mentioned earlier, Ecolab's size also allows it to acquire smaller companies through bolt-on acquisitions. All said, the company's size, scale, and research focus lead us to believe that many years of dividend growth are yet to come for this high-quality Dividend Aristocrat.

Final Thoughts & Recommendation

Ecolab continues to fire on all cylinders, with no signs of fatigue. The company has a remarkably consistent growth record, as it has grown every single year in the last decade. A consistent growth record is one of the most important features investors should look for. Nevertheless, the market has fully appreciated the exceptional virtues of this stock and has thus already priced a great portion of future growth in the stock. As a result, the stock may provide lackluster returns even if it keeps growing at its current pace. Therefore, Ecolab fails to earn a buy recommendation from Sure Dividend at its current price. Of course, the stock may continue to enjoy a rich valuation for years but investors should be aware of the risk of such an investment proposition.

Total Return Breakdown by Year



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