



Ecolab Inc. (ECL)

Updated October 31st, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$149	5 Year CAGR Estimate:	3.3%	Volatility Percentile:	3.5%
Fair Value Price:	\$105	5 Year Growth Estimate:	9.0%	Momentum Percentile:	79.5%
% Fair Value:	142%	5 Year Valuation Multiple Estimate:	-6.8%	Growth Percentile:	82.2%
Dividend Yield:	1.1%	5 Year Price Target	\$162	Valuation Percentile:	5.1%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	9.7%

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 \$43 billion and annual revenues of almost \$15 billion. With 32 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In late October, Ecolab reported (10/30/18) financial results for the third quarter of fiscal 2018. The company grew its reported sales by 5% and its currency-adjusted sales by 7%. Ecolab implemented meaningful price hikes and thus more than offset the increased costs of raw material and transportation. Assisted by a reduced tax rate, the company grew its adjusted earnings-per-share by 11% and met analysts' estimates.

However, the high costs of raw material and transportation and the unfavorable exchange rates led management to revise its guidance for this year downwards, from earnings-per-share of \$5.30-\$5.50 to \$5.20-\$5.30. Nevertheless, while the above factors are challenging for this year, management stated that it did not expect any effects in the long-term growth trajectory of the company. The market seems to agree on management's view. While the stock initially plunged 6% on the day of the earnings release, it ended up rallying 2% on the day.

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	\$5.25	\$8.08
DPS	\$0.52	\$0.56	\$0.62	\$0.73	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$2.50
Shares	236.2	236.6	232.7	292.0	294.7	300.8	299.9	296.0	291.8	289.3	288.5	285.0

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 on 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 \$8.08.

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	28.4	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%

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Ecolab is currently trading at a P/E ratio of 28.4. Although the stock has traded at an average P/E ratio of 23.8 over the last decade, we believe that a fair value for Ecolab is closer to 20 times earnings. If the stock's valuation reverts to this level over the next five years, it will cause a 6.8% headwind to the stock's annualized returns.

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%	32.0%	35.0%
Debt/A	67.0%	60.1%	56.3%	68.8%	65.4%	62.6%	62.3%	62.9%	62.4%	61.8%	60.0%	62.0%
Int. Cov.	11.7	11.2	13.8	10.3	4.7	6.0	7.7	6.5	7.3	8.0	8.0	9.0
Payout	28.0%	28.1%	27.8%	28.7%	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	31.2%	30.9%
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%

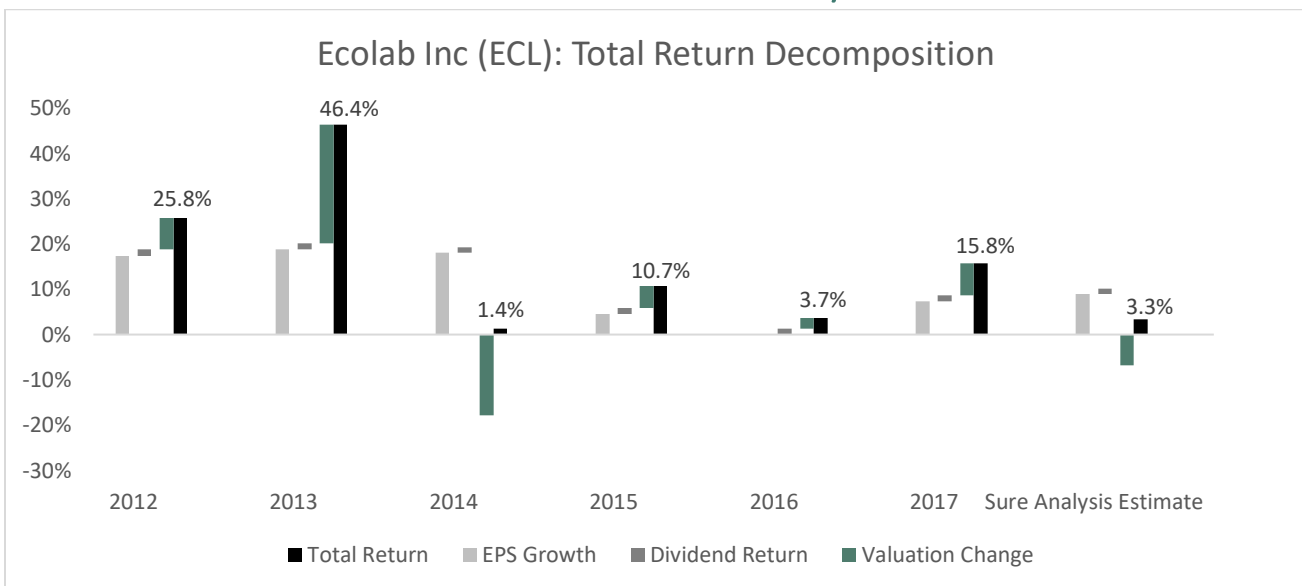
Ecolab's gross profit as a percent of its total assets has declined from its remarkably high figures reported a decade ago. Still, we believe that Ecolab is a very high-quality business and should perform better during recessions than many of its peers in the large capitalization equity universe.

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. 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 has a remarkably consistent growth record, which is one of the most important features investors should look for. However, the market has fully appreciated the virtues of this stock and has thus already priced in a great portion of future growth. As a result, the stock may offer lackluster returns even if it keeps growing at its current pace. Due to its excessive valuation, Ecolab earns a sell rating from Sure Analysis at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6138	5901	6090	6799	11839	13253	14281	13545	13153	13838
Gross Profit	2996	2923	3076	3323	5453	6092	6601	6322	6254	6433
Gross Margin	48.8%	49.5%	50.5%	48.9%	46.1%	46.0%	46.2%	46.7%	47.5%	46.5%
SG&A Exp.	2257	2174	2262	2438	4018	4360	4578	4346	4299	4417
D&A Exp.	335	334	348	396	715	816	872	860	851	893
Operating Profit	739	748	814	885	1435	1732	2024	1976	1955	2016
Operating Margin	12.0%	12.7%	13.4%	13.0%	12.1%	13.1%	14.2%	14.6%	14.9%	14.6%
Net Profit	448	417	530	463	704	968	1203	1002	1230	1508
Net Margin	7.3%	7.1%	8.7%	6.8%	5.9%	7.3%	8.4%	7.4%	9.3%	10.9%
Free Cash Flow	359	398	653	320	596	898	1022	1185	1183	1223
Income Tax	203	201	217	216	311	325	476	301	403	242

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4757	5021	4872	18185	17572	19637	19427	18642	18330	19962
Cash & Equivalents	67	74	242	1844	1158	339	210	93	327	211
Accounts Receivable	971	1016	1000	2095	2225	2568	2627	2390	2341	2574
Inventories	467	493	448	1070	1088	1322	1467	1388	1319	1446
Goodwill & Int. Ass.	1594	1727	1612	10131	9965	11648	11174	10600	10201	11185
Total Liabilities	3178	3011	2739	12444	11412	12227	12045	11661	11359	12274
Accounts Payable	360	361	349	816	880	1022	1162	1050	983	1177
Long-Term Debt	1138	967	846	7636	6542	6905	6548	6466	6687	7323
Shareholder's Equity	1572	2001	2129	5667	6077	7344	7316	6910	6901	7619
D/E Ratio	0.72	0.48	0.40	1.35	1.08	0.94	0.90	0.94	0.97	0.96

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.5%	8.5%	10.7%	4.0%	3.9%	5.2%	6.2%	5.3%	6.7%	7.9%
Return on Equity	25.6%	23.4%	25.7%	11.9%	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%
ROIC	15.8%	14.7%	17.8%	5.7%	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%
Shares Out.	236.2	236.6	232.7	292.0	294.7	300.8	299.9	296.0	291.8	289.3
Revenue/Share	24.62	24.60	25.63	28.08	39.61	43.33	46.68	44.94	44.33	47.07
FCF/Share	1.44	1.66	2.75	1.32	1.99	2.93	3.34	3.93	3.99	4.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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