



Ecolab Inc. (ECL)

Updated May 15th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$179	5 Year CAGR Estimate:	2.1%	Volatility Percentile:	5.0%
Fair Value Price:	\$118	5 Year Growth Estimate:	9.0%	Momentum Percentile:	80.2%
% Fair Value:	151%	5 Year Valuation Multiple Estimate:	-7.9%	Growth Percentile:	87.1%
Dividend Yield:	1.0%	5 Year Price Target	\$182	Valuation Percentile:	4.8%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	8.7%

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 \$52 billion and annual revenues of almost \$15 billion. With 33 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In late April, Ecolab reported (4/26/19) financial results for the first quarter of fiscal 2019. The company grew its adjusted sales by 3%, as strong growth in the industrial segment more than offset a modest decrease in energy sales. Adjusted earnings-per-share rose 13% thanks to higher sales, price hikes, new product innovation, cost savings and a lower tax rate, which more than offset the increased delivered product costs, investments in the business and unfavorable currency effects. In the year, Ecolab remained in its solid growth trajectory, with 6% revenue growth and 12% adjusted earnings-per-share growth.

Management stated that the company has entered this year with strong business momentum and reiterated its guidance for this year. Management expects adjusted earnings-per-share of \$5.80-\$6.00, thus implying 12% growth rate at the mid-point.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.99	\$2.23	\$2.54	\$2.98	\$3.54	\$4.18	\$4.37	\$4.37	\$4.69	\$5.25	\$5.92	\$9.11
DPS	\$0.56	\$0.62	\$0.73	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$1.84	\$2.80
Shares	236.6	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	291.0	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 10.9% 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 2024 earnings-per-share estimate of \$9.11.

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. In early February, Ecolab announced the acquisition of Lobster Ink, a privately held company based in Geneva. Lobster Ink, which is a leading provider of end-to-end online customer training solutions, will enhance Ecolab's customer training capacity. We believe additional tuck-in acquisitions are highly likely for Ecolab moving forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.9	21.1	20.4	21.8	25.4	26.0	25.9	26.3	27.5	27.6	30.2	20.0
Avg. Yld.	1.4%	1.3%	1.4%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.5%

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Ecolab has rallied 30% in less than five months. As a result, it is currently trading at a price-to-earnings ratio of 30.2, which is the richest valuation in more than a decade. Although the stock has traded at an average price-to-earnings ratio of 24.2 over the last decade, we believe that a fair value for Ecolab is closer to 20 times earnings. If the stock's valuation approaches this level over the next five years, it will cause a 7.9% headwind to the stock's annualized returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	28.1%	27.8%	28.7%	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	31.2%	31.1%	30.7%

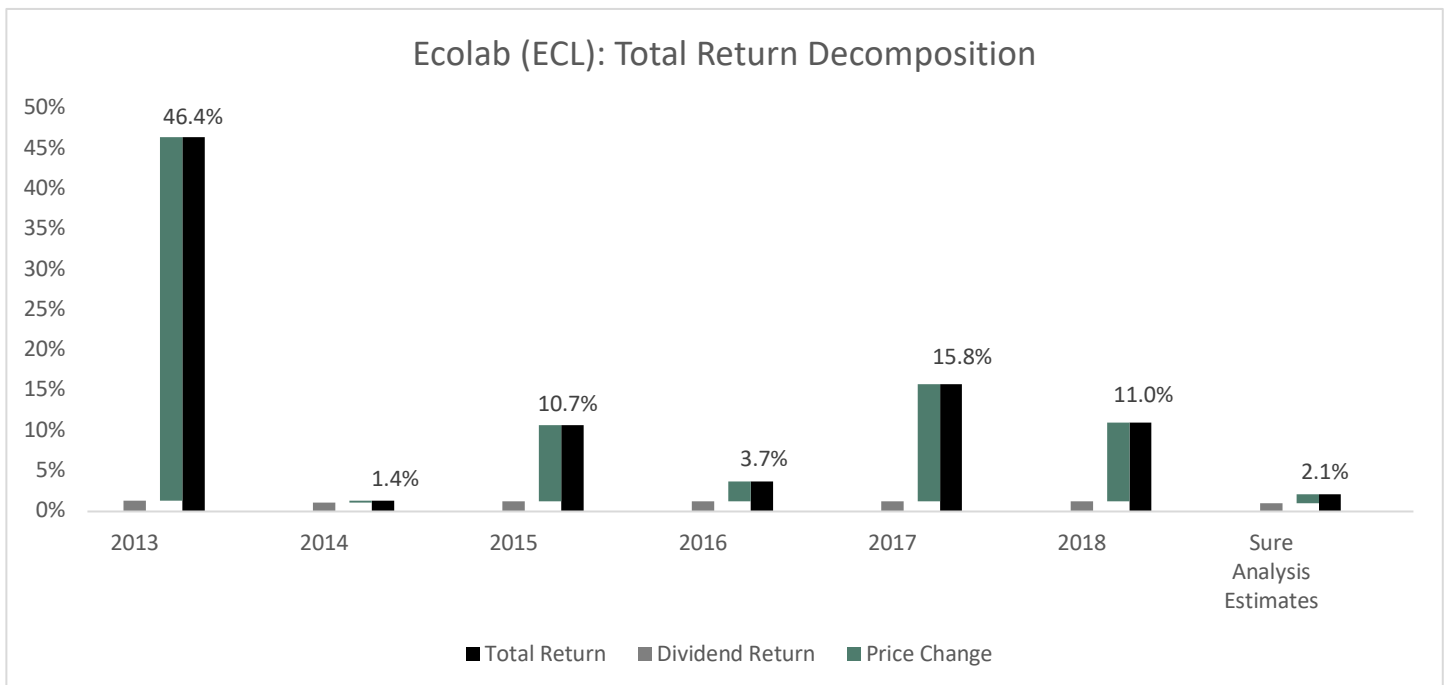
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet and its interest expense consumes just 11% of its operating income.

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. To provide a perspective, the stock already trades at 20 times its expected 2024 earnings. As a result, Ecolab may offer lackluster returns even if it keeps growing at its current pace. As long as the U.S. economy and the market sentiment remain positive, the stock may maintain its premium valuation. However, such an investment strategy carries great risks in the event of a downturn. Due to its excessive valuation, Ecolab earns a sell rating from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5901	6090	6799	11839	13253	14281	13545	13153	13838	14668
Gross Profit	2923	3076	3323	5453	6092	6601	6322	6254	6433	6042
Gross Margin	49.5%	50.5%	48.9%	46.1%	46.0%	46.2%	46.7%	47.5%	46.5%	41.2%
SG&A Exp.	2174	2262	2438	4018	4360	4578	4346	4299	4417	3969
D&A Exp.	334	348	396	715	816	872	860	851	893	N/A
Operating Profit	748	814	885	1435	1732	2024	1976	1955	2016	2074
Operating Margin	12.7%	13.4%	13.0%	12.1%	13.1%	14.2%	14.6%	14.9%	14.6%	14.1%
Net Profit	417	530	463	704	968	1203	1002	1230	1508	1429
Net Margin	7.1%	8.7%	6.8%	5.9%	7.3%	8.4%	7.4%	9.3%	10.9%	9.7%
Free Cash Flow	398	653	320	596	898	1022	1185	1183	1223	N/A
Income Tax	201	217	216	311	325	476	301	403	242	364

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	5021	4872	18185	17572	19637	19427	18642	18330	19962	20075
Cash & Equivalents	74	242	1844	1158	339	210	93	327	211	115
Accounts Receivable	1016	1000	2095	2225	2568	2627	2390	2341	2574	2663
Inventories	493	448	1070	1088	1322	1467	1388	1319	1446	1546
Goodwill & Int. Ass.	1727	1612	10131	9965	11648	11174	10600	10201	11185	10876
Total Liabilities	3011	2739	12444	11412	12227	12045	11661	11359	12274	12021
Accounts Payable	361	349	816	880	1022	1162	1050	983	1177	1256
Long-Term Debt	967	846	7636	6542	6905	6548	6466	6687	7323	7045
Shareholder's Equity	2001	2129	5667	6077	7344	7316	6910	6901	7619	8003
D/E Ratio	0.48	0.40	1.35	1.08	0.94	0.90	0.94	0.97	0.96	0.88

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.5%	10.7%	4.0%	3.9%	5.2%	6.2%	5.3%	6.7%	7.9%	7.1%
Return on Equity	23.4%	25.7%	11.9%	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%	18.3%
ROIC	14.7%	17.8%	5.7%	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%	9.5%
Shares Out.	236.6	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2
Revenue/Share	24.60	25.63	28.08	39.61	43.33	46.68	44.94	44.33	47.07	50.10
FCF/Share	1.66	2.75	1.32	1.99	2.93	3.34	3.93	3.99	4.16	N/A

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

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