



# Ecolab Inc. (ECL)

Updated February 20<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$210	<b>5 Year CAGR Estimate:</b>	0.1%	<b>Market Cap:</b>	\$61.4 B
<b>Fair Value Price:</b>	\$129	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	3/16/2020 <sup>1</sup>
<b>% Fair Value:</b>	163%	<b>5 Year Valuation Multiple Estimate:</b>	-9.3%	<b>Dividend Payment Date:</b>	4/13/2020
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$198	<b>Years Of Dividend Growth:</b>	34
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	2.2%

## 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 \$61 billion with annual revenue of almost \$15 billion. With 34 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In mid-February, Ecolab reported (2/18/20) financial results for the fourth quarter of fiscal 2019. The company grew its sales by 3% and its adjusted earnings-per-share by 8% over prior year's quarter thanks to double-digit growth in the industrial and energy segment. In the year, Ecolab grew its earnings-per-share at a double-digit rate (11%) once again thanks to price hikes, new business gains, product innovation and cost savings.

Moreover, thanks to positive business momentum and the recent completion of its North American ERP system, which will enhance the efficiency of the company and will expand its margins, management expects adjusted earnings-per-share of \$6.33-\$6.53 this year, implying 10.5% growth at the mid-point.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.23	\$2.54	\$2.98	\$3.54	\$4.18	\$4.37	\$4.37	\$4.69	\$5.25	\$5.82	<b>\$6.45</b>	<b>\$9.92</b>
<b>DPS</b>	\$0.62	\$0.73	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$1.84	<b>\$1.88</b>	<b>\$2.90</b>
<b>Shares<sup>2</sup></b>	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	<b>292.0</b>	<b>285.0</b>

Ecolab has significantly grown its earnings-per-share every single year in the last decade, apart from the flat year in 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 11.3% per year since 2009. Looking ahead, we reiterate that a long-term annualized growth rate of 9% is feasible for this high-quality dividend stock.

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 January, Ecolab agreed to acquire Belgium-based CID Lines for an undisclosed price. CID Lines offers cleaning, disinfectant and hygiene solutions for pig, poultry and dairy farms, serving more than 300,000 farms in over 100 countries. We expect more tuck-in acquisitions to materialize for Ecolab moving forward.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	21.1	20.4	21.8	25.4	26.0	25.9	26.3	27.5	27.6	31.8	<b>32.6</b>	<b>20.0</b>
<b>Avg. Yld.</b>	1.3%	1.4%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	<b>0.9%</b>	<b>1.5%</b>

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Ecolab Inc. (ECL)

*Updated February 20<sup>th</sup>, 2020 by Aristofanis Papadatos*

Ecolab has rallied 54% off its bottom at the end of 2018. As a result, it is currently trading at a price-to-earnings ratio of 32.6, which is the richest average valuation in more than a decade. Although the stock has traded at an average price-to-earnings ratio of 25.4 over the last decade, we believe that a fair P/E for Ecolab is closer to 20. If the stock's valuation approaches this level over the next five years, it will cause a -9.3% headwind to the stock's annualized returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27.8%	28.7%	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	31.2%	31.6%	29.1%	29.2%

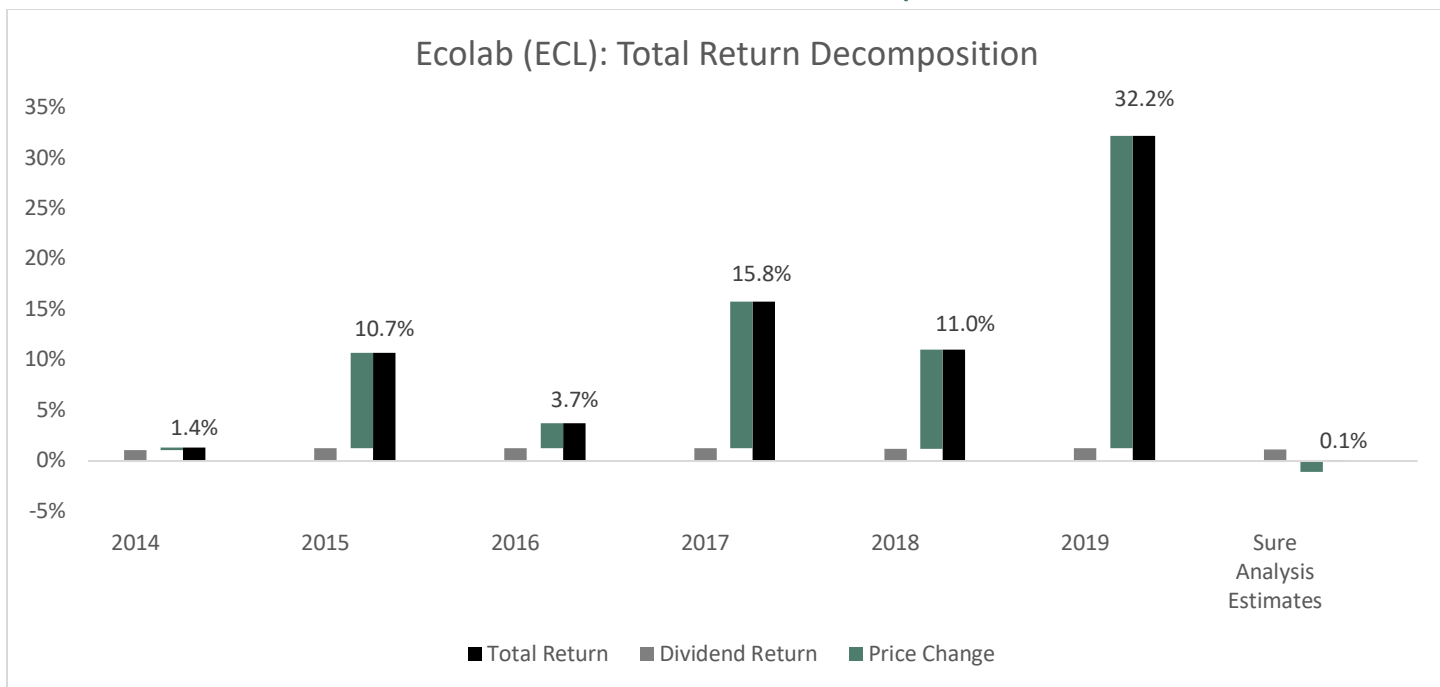
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet and its interest expense consumes just 8% of its operating income.

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, thanks to its 54% rally off its bottom at the end of 2018, the stock already trades at 21 times its expected 2025 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 receives a sell rating from Sure Dividend at current prices.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



# Ecolab Inc. (ECL)

Updated February 20<sup>th</sup>, 2020 by Aristofanis Papadatos

## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	6,090	6,799	11,839	13,253	14,281	13,545	13,152	13,836	14,668	14,906
<b>Gross Profit</b>	3,076	3,323	5,453	6,092	6,601	6,322	5,618	5,772	6,042	6,183
<b>Gross Margin</b>	50.5%	48.9%	46.1%	46.0%	46.2%	46.7%	42.7%	41.7%	41.2%	41.5%
<b>SG&amp;A Exp.</b>	2,262	2,438	4,018	4,360	4,578	4,346	3,708	3,825	3,969	3,958
<b>D&amp;A Exp.</b>	348	396	715	816	872	860	851	893	938	
<b>Operating Profit</b>	814	885	1,435	1,732	2,024	1,976	1,910	1,946	2,074	2,225
<b>Operating Margin</b>	13.4%	13.0%	12.1%	13.1%	14.2%	14.6%	14.5%	14.1%	14.1%	14.9%
<b>Net Profit</b>	530	463	704	968	1,203	1,002	1,229	1,505	1,429	1,559
<b>Net Margin</b>	8.7%	6.8%	5.9%	7.3%	8.4%	7.4%	9.3%	10.9%	9.7%	10.5%
<b>Free Cash Flow</b>	653	320	596	898	1,022	1,185	1,183	1,223	1,431	
<b>Income Tax</b>	217	216	311	325	476	301	403	244	364	323

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	4,872	18,185	17,572	19,637	19,427	18,642	18,330	19,964	20,075	20,869
<b>Cash &amp; Equivalents</b>	242	1,844	1,158	339	210	93	327	211	115	186
<b>Accounts Receivable</b>	1,000	2,095	2,225	2,568	2,627	2,390	2,341	2,571	2,663	2,797
<b>Inventories</b>	448	1,070	1,088	1,322	1,467	1,388	1,319	1,447	1,546	1,506
<b>Goodwill &amp; Int. Ass.</b>	1,612	10,131	9,965	11,648	11,174	10,600	10,201	11,185	10,876	10,924
<b>Total Liabilities</b>	2,739	12,444	11,412	12,227	12,045	11,661	11,359	12,310	12,021	12,143
<b>Accounts Payable</b>	349	816	880	1,022	1,162	1,050	983	1,177	1,256	1,284
<b>Long-Term Debt</b>	846	7,636	6,542	6,905	6,548	6,466	6,687	7,323	7,045	6,354
<b>Shareholder's Equity</b>	2,129	5,667	6,077	7,344	7,316	6,910	6,901	7,584	8,003	8,685
<b>D/E Ratio</b>	0.40	1.35	1.08	0.94	0.90	0.94	0.97	0.97	0.88	0.73

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	10.7%	4.0%	3.9%	5.2%	6.2%	5.3%	6.6%	7.9%	7.1%	7.6%
<b>Return on Equity</b>	25.7%	11.9%	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%	18.3%	18.7%
<b>ROIC</b>	17.8%	5.7%	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%	9.5%	10.3%
<b>Shares Out.</b>	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6
<b>Revenue/Share</b>	25.63	28.08	39.61	43.33	46.68	44.94	44.33	47.06	50.10	50.96
<b>FCF/Share</b>	2.75	1.32	1.99	2.93	3.34	3.93	3.99	4.16	4.89	

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.