



Ecolab Inc. (ECL)

Updated October 30th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$187	5 Year CAGR Estimate:	0.7%	Market Cap:	\$52.9 B
Fair Value Price:	\$90	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	12/14/2020 ¹
% Fair Value:	208%	5 Year Valuation Multiple Estimate:	-13.6%	Dividend Payment Date:	1/13/2021
Dividend Yield:	1.0%	5 Year Price Target	\$181	Years Of Dividend Growth:	34
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	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. Ecolab was founded in 1923 and has grown to a market capitalization of \$52.9 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 late October, Ecolab reported (10/27/20) financial results for the third quarter of fiscal 2020. Just like in the previous quarter, the pandemic greatly benefited the healthcare segment of Ecolab but it weighed on the industrial segment and hurt the institutional segment, which includes the restaurants and hotels that are customers of Ecolab. On the bright side, the effect of the pandemic was less severe than it was in the second quarter. Overall, revenue decreased -8% and adjusted earnings-per-share decreased -24% over last year's quarter. Management expects the recovery to continue in the fourth quarter but at a slow pace due to the second wave of the pandemic.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.23	\$2.54	\$2.98	\$3.54	\$4.18	\$4.37	\$4.37	\$4.69	\$5.25	\$5.82	\$4.50	\$9.05
DPS	\$0.62	\$0.73	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$1.84	\$1.88	\$2.90
Shares²	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	292.0	285.0

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. It will incur a decline this year due to the pandemic but we view this headwind as temporary, as we expect the global economy to begin to recover next year. Due to this year's suppressed earnings, we expect Ecolab to grow its earnings-per-share at a 15.0% average annual rate over the next five years.

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
Avg. P/E	21.1	20.4	21.8	25.4	26.0	25.9	26.3	27.5	27.6	31.8	41.6	20.0
Avg. Yld.	1.3%	1.4%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	1.6%

¹ Estimated date.

² In millions.

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Due to the dip in earnings this year, Ecolab is trading at a price-to-earnings ratio of 41.6, which is nearly the richest valuation level 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 earnings multiple for Ecolab is closer to 20. If the valuation approaches this level over the next five years, it will cause a -13.6% headwind to the 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%	41.8%	32.0%

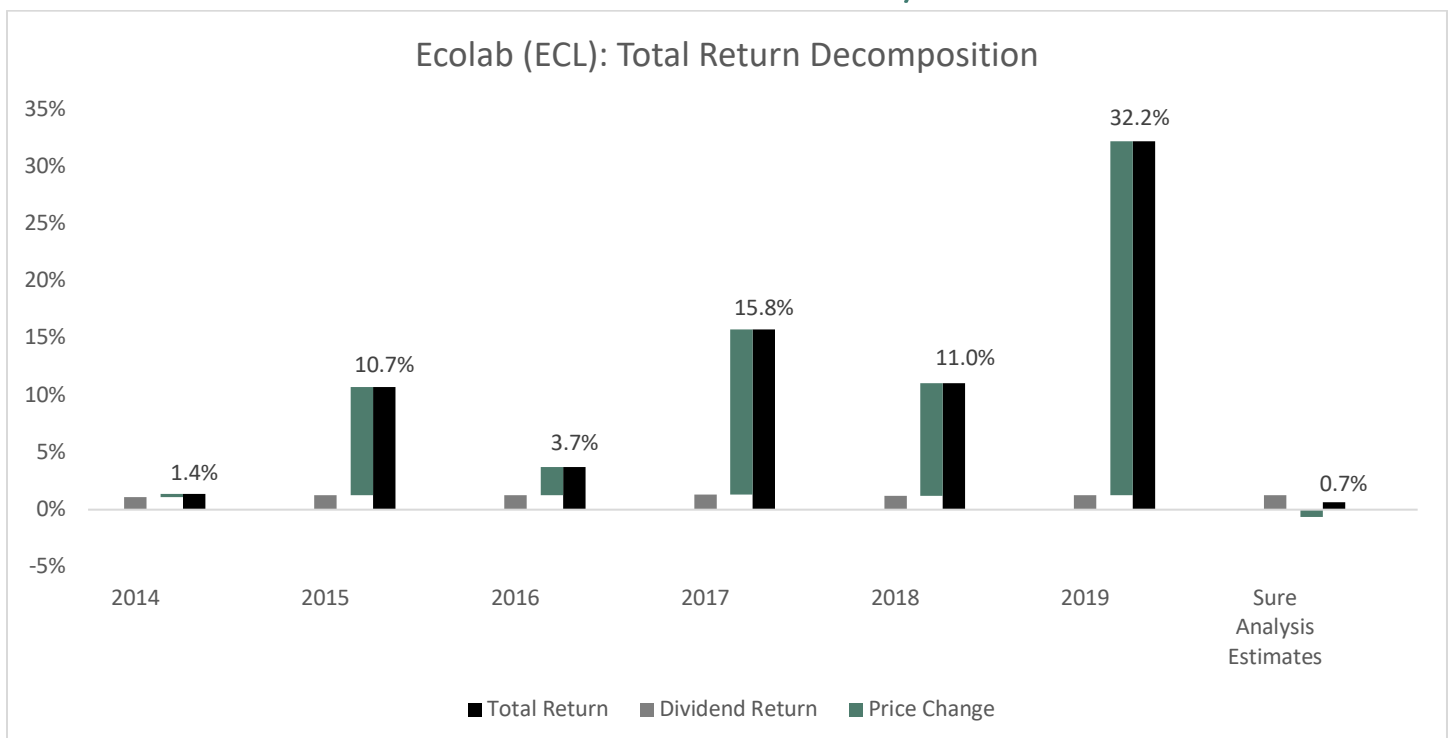
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet and its interest expense consumes just 10% of its operating income.

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. We expect Ecolab to endure the global recession caused by the pandemic and return to growth mode from next year. 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 21 times its expected 2025 earnings. As a result, Ecolab may offer lackluster returns even if it keeps growing at its historical pace. We thus maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,872	18,185	17,572	19,637	19,427	18,642	18,330	19,964	20,075	20,869
Cash & Equivalents	242	1,844	1,158	339	210	93	327	211	115	186
Accounts Receivable	1,000	2,095	2,225	2,568	2,627	2,390	2,341	2,571	2,663	2,797
Inventories	448	1,070	1,088	1,322	1,467	1,388	1,319	1,447	1,546	1,506
Goodwill & Int. Ass.	1,612	10,131	9,965	11,648	11,174	10,600	10,201	11,185	10,876	10,924
Total Liabilities	2,739	12,444	11,412	12,227	12,045	11,661	11,359	12,310	12,021	12,143
Accounts Payable	349	816	880	1,022	1,162	1,050	983	1,177	1,256	1,284
Long-Term Debt	846	7,636	6,542	6,905	6,548	6,466	6,687	7,323	7,045	6,354
Shareholder's Equity	2,129	5,667	6,077	7,344	7,316	6,910	6,901	7,584	8,003	8,685
D/E Ratio	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
Return on Assets	10.7%	4.0%	3.9%	5.2%	6.2%	5.3%	6.6%	7.9%	7.1%	7.6%
Return on Equity	25.7%	11.9%	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%	18.3%	18.7%
ROIC	17.8%	5.7%	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%	9.5%	10.3%
Shares Out.	232.7	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6
Revenue/Share	25.63	28.08	39.61	43.33	46.68	44.94	44.33	47.06	50.10	50.96
FCF/Share	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.

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