Republic Services Inc. (RSG)

Updated November 13th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$32B
Fair Value Price:	$92	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/31/2020
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	01/15/2021
Dividend Yield:	1.7%	**5 Year Price Target**	$134	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5%

Overview & Current Events

Republic Services, Inc. is an industry leader and national provider of recycling and non-hazardous solid waste disposal, operating in 41 states. The company holds around 20% market share of the landfill volume in the United States and is only behind Waste Management, which holds around 26%. Moreover, by operating in an industry with increasing consolidation, its position should improve further. The trash-collection industry benefits from predictable cash flows because of its non-cyclical business model. As a result, Republic Services has been able to return capital to its shareholders consistently. The dividend has been growing for the past 17 years, as the company has never cut its distribution since its first one in 2004. The company generates around $10 billion in annual revenues and is based in Phoenix, Arizona.

On November 5th, 2020, Republic Services reported its Q3 results for the period ending September 30th, 2020. For the quarter, EPS was $0.81, 13% lower than Q3 2019, while revenues declined by around 2.6% Y-o-Y to $2.57 billion. Due to the ongoing pandemic, the decline in financials was due to customers temporarily suspending or reducing service levels, experiencing around a 3.4% decline in volumes. However, the company continued to expand the adjusted EBITDA margin, this time by 230 basis points (2.3%), to 30.3%. Additionally, the company converted more of its customers' contracts (now 34%) to be tied to a waste-related index or a fixed-rate increase of 3% or more, locking in contractually-locked rate increases. As a result of increased margins, rate charges, and a gradual resumption towards normality, management increased EPS guidance to $3.37-$3.40 and its free cash flow guidance to $1.15-$1.20 billion.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.32	$1.57	$1.56	$1.63	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	***$3.39***	***$4.98***
DPS	$0.78	$0.84	$0.91	$0.99	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	***$1.70***	***$2.17***
Shares[1]	383	376	366.9	362.1	356.7	350.0	343	337.1	326.9	321.1	***319.2***	***270.0***

EPS CAGR over the past decade has been around 11%, while DPS CAGR over the same period has been about 8%. We increase our EPS growth estimate to 8%. As of Q3-2020, the Board had authorized a $2 billion stock buyback program through 2023. Representing around 6% of its current market cap, EPS is likely to grow by ~3% annually at the current stock's price levels, from share repurchases alone. That is on top of its current $606 million remaining to be repurchased through Dec 31, 2020. Combined with margins expanding and more contracts switching to annual rate increases, such an increase in our forecasts is only reasonable. For context, since 2010, the company has retired around 17% of the outstanding shares. We retain our DPS growth estimates at 5%, in line with the company's latest distribution increase.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.6	17.6	15.2	22.5	18.1	21.2	25.0	27.1	16.6	26.8	***29.5***	***27.0***
Avg. Yld.	2.6%	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	***1.7%***	***1.6%***

[1] Share count is in millions.

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Over the past few months, investors have been seeking stable and reliable cash flows, such as those of RSG, to battle uncertainty. As a result, shares have appreciated considerably, trading on the higher ranger of their usual valuation, at a P/E of 29.5. The stock is thus offering a moderate yield of just 1.7%. Considering the company's robust profitability generation, increased profitability guidance, and decent dividend raises, we raise our medium-term valuation multiple to 27. With healthy financials and consistent dividend growth, the company should attract further investor interest, hence the multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	59.0%	53.50%	58.3%	60.7%	70.1%	54.2%	69.2%	35.0%	45.4%	46.7%	50.1%	***44%***

The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, an entry in the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases, as well as Republic Services' robust customer base (which includes municipalities), allow it to operate in an extremely low volatility environment. During the quarter, the company decreased its long-term debt position by a further $110 million, to $8.49 billion, while the ongoing interest payments are covered by around 4.88 times the company's operating cash flows.

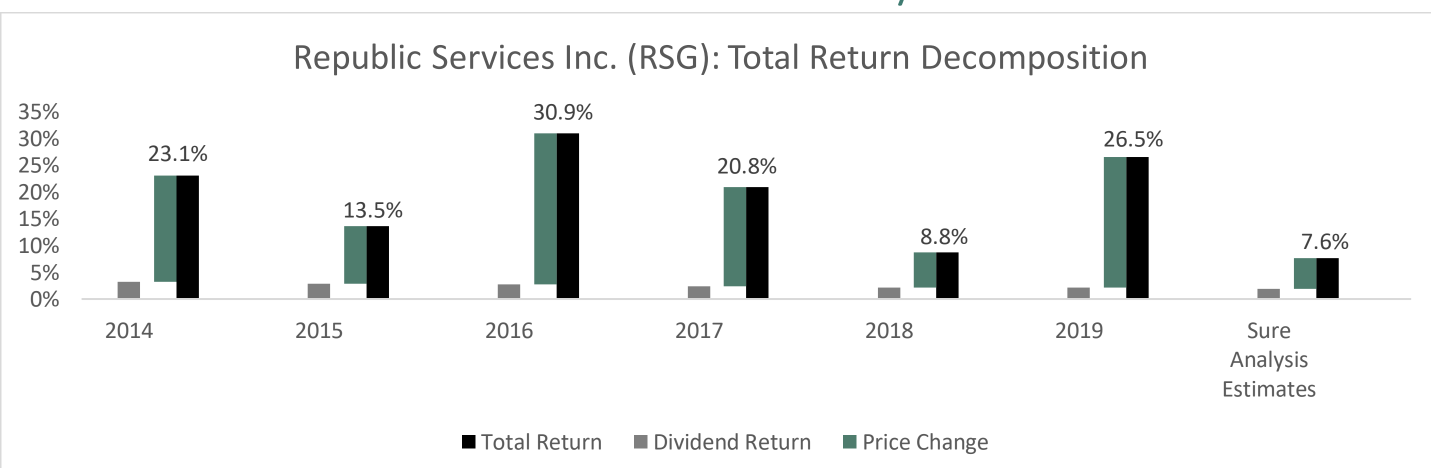
Further, the dividend remains very well-covered, at just over 50% its EPS, despite the latest DPS increase.

In FY2008, during the Great Financial Crisis, the company increased its revenues and also merged with Allied Waste Services to strengthen its market position. If another recession occurs, the company has enough cash to repeat such strategic acquisitions, continue its distributions, and even buy back more shares. In Q3, liquidity remained robust at around $2.3 billion, suggesting heavy firepower is available to be deployed amid potential opportunities.

Final Thoughts & Recommendation

Republic Services is a safe investment option considering the company's stability, robust cash flows, and consistent return of capital to shareholders. In times of uncertainty and wild market swings, the company should shine, featuring its quality, low-volatility characteristics. However, due to its current above-average historical P/E ratio, shares may be slightly overvalued, which could potentially result in a valuation contraction. However, due to the new buyback program, sales volumes continuously recovering, and Republic's contractually-locked rates expanding, we raised our EPS growth estimates. We now expect annualized returns of around 7.6% in the medium-term as a result.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$8,107	$8,193	$8,118	$8,417	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299
Gross Profit	$3,342	$3,328	$3,113	$3,183	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001
Gross Margin	41.2%	40.6%	38.3%	37.8%	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%
SG&A Exp.	$834	$804	$827	$995	$898	$965	$955	$1,059	$1,013	$1,042
Operating Profit	$1,522	$1,531	$1,283	$1,176	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803
Operating Margin	18.8%	18.7%	15.8%	14.0%	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%
Net Profit	$507	$589	$572	$589	$548	$750	$613	$1,278	$1,037	$1,073
Net Margin	6.2%	7.2%	7.0%	7.0%	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%
Free Cash Flow	$639	$830	$610	$667	$667	$734	$920	$921	$1,171	$1,145
Income Tax	$370	$317	$252	$262	$337	$446	$353	$3	$283	$222

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	19462	19552	19617	19949	20094	20536	20630	21147	21617	22684
Cash & Equivalents	$88	$66	$68	$213	$75	$32	$68	$83	$71	$47
Accounts Receivable	$829	$826	$837	$891	$930	$963	$995	$1,106	$1,103	$1,126
Inventories	$31	$35	$35	$38	$36	$39	$44	$51	$53	$57
Goodwill & Int. Ass.	11107	11057	11049	11040	11130	11392	11346	11457	11507	11767
Total Liabilities	11613	11868	11911	12043	12346	12759	12936	13186	13688	14563
Accounts Payable	$607	$564	$475	$511	$527	$577	$554	$598	$762	$778
Long-Term Debt	$6,744	$6,922	$7,071	$7,018	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689
Shareholder's Equity	$7,847	$7,681	$7,703	$7,904	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118
D/E Ratio	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.6%	3.0%	2.9%	3.0%	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%
Return on Equity	6.6%	7.6%	7.4%	7.5%	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%
ROIC	3.5%	4.0%	3.9%	4.0%	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%
Shares Out.	385	378	368	363	358	351	344	339	328	322
Revenue/Share	$21.05	$21.70	$22.06	$23.16	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99
FCF/Share	$1.66	$2.20	$1.66	$1.84	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56

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