Republic Services Inc. (RSG)

Updated May 6th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$35.4B
Fair Value Price:	$98	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/30/2021
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	07/15/2021
Dividend Yield:	1.6%	**5 Year Price Target**	$144	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 May 5th, 2021, Republic Services reported its Q1 results for the period ended March 31st, 2021. For the quarter, EPS was $0.93, 24% higher than Q1-2020, while revenues increased by 1.6% year-over-year to $2.59 billion. As a result of the company's essential public-service operations, revenues have remained incredibly stable over the past few quarters. Profitability was primarily boosted by favorable pricing and robust volumes. Recycled commodity prices, for instance, increased by 75% to $133 per ton. The company managed to expand its adjusted EBITDA margin once again, by 270 basis points to 30.7%. Additionally, the company converted more of its customers' contracts (from 35% to 37%) 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 raised its FY2021's EPS guidance to a narrowed $3.74 to $3.79 and its free cash flow guidance to $1.35-$1.40 billion. We have updated our estimates accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.57	$1.56	$1.63	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	$3.56	***$3.77***	***$5.54***
DPS	$0.84	$0.91	$0.99	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	$1.66	***$1.74***	***$2.22***
Shares[1]	376	367	362	357	350	343	337	327	321	319	**317**	***270***

Republic Services' EPS CAGR has been around 9.5% over the past decade, while DPS CAGR has been about 8% over the same period. We retain our EPS growth estimate to 8%, sustained by the company's organic growth, contractually-secured payment increases, and stock buybacks. The company bought back $148 worth of its stock during Q1. The company's current repurchase program remains at $2 billion and is to be completed through 2023. It represents around 5.6% of Republic's current market cap. Hence EPS is likely to grow by ~3% annually at the current stock's price levels, from share repurchases alone. For context, since 2010, the company has retired more than 18% of the outstanding shares. The acquisition of Santek closed during the quarter as well, which along with its pipeline, are to grow revenues (and likely profits) by around 3%. Margins are expanding, more contracts are switching to annual rate increases, and Republic is constantly beating and raising its own estimates. EPS growth is likely to be faster through 2026, though we remain prudent. We retain our DPS growth estimates at 5%, in line with the company's latest dividend increase.

[1] Share count is 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.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.6	15.2	22.5	18.1	21.16	25.0	27.14	16.57	26.8	30.2	***29.4***	***26.0***
Avg. Yld.	2.8%	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	***1.6%***	***1.5%***

Over the past decade, investors must have been increasing their appreciation of Republic's stable and reliable cash flows, causing the stock to undergo a prolonged valuation expansion. Due to its robust guidance, the stock's forward P/E is currently hovering at a relatively pricy P/E of around 29.4, quite higher than its historical average. In our last report, we projected a valuation expansion, which would settle around 26. The stock has surpassed that, though we continue to believe in makes for a fair multiple. Hence, we retain our valuations expectations. Republic is currently offering a 13-year low yield of just 1.6% due to the stock's valuation expansion. We expect it to remain quite low.

Safety, Quality, Competitive Advantage, & Recession Resiliency

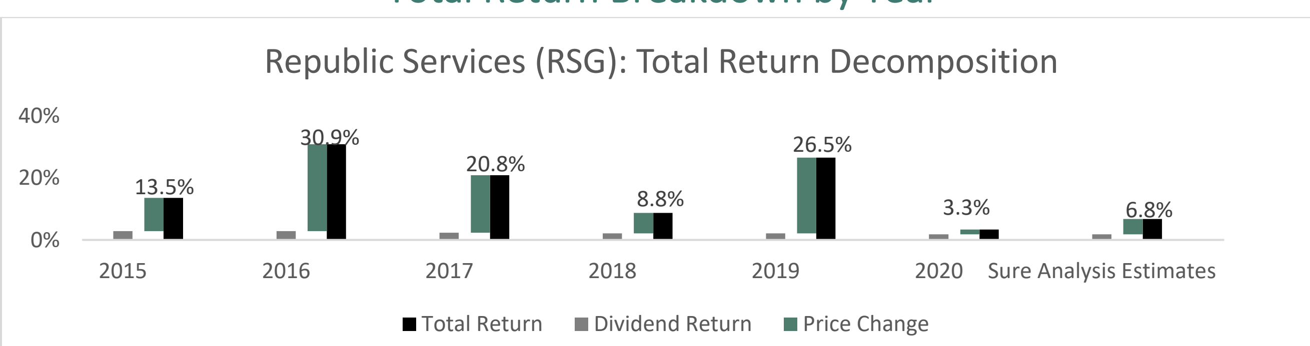
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	54%	58%	61%	70%	54%	69%	35%	45%	47%	47%	46%	***40%***

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, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases and Republic Services' robust customer base (which includes municipalities) allow it to operate in an extremely low volatility environment. The company decreased its long-term debt position by ~$172 million to $8.59 billion during the quarter. The ongoing interest expenses declined during the quarter from $96.7 million to $78.4 million, while interest outflows are also covered by around 6.28 times the company's operating cash flows. Further, the dividend remains very well-covered, under 50% of Republic's 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 dividends, and even buy back more shares. In Q1, liquidity remained robust at about $3 billion, suggesting heavy firepower is available to be deployed in future opportunities.

Final Thoughts & Recommendation

Republic Services appears to be a safe investment option considering its 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. We now expect annualized returns of around 6.8% in the medium-term. While our growth estimates remain satisfactory, the company's compressed dividend yield and the possibility for a valuation reversion headwind have lowered our expected returns. Shares earn a hold rating at their current price levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	$8,193	$8,118	$8,417	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299	$10,150
Gross Profit	$3,328	$3,113	$3,183	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001	$4,053
Gross Margin	40.6%	38.3%	37.8%	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%	39.9%
SG&A Exp.	$804	$827	$995	$898	$965	$955	$1,059	$1,013	$1,042	$1,060
Operating Profit	$1,531	$1,283	$1,176	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803	$1,807
Operating Margin	18.7%	15.8%	14.0%	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%	17.8%
Net Profit	$589	$572	$589	$548	$750	$613	$1,278	$1,037	$1,073	$967
Net Margin	7.2%	7.0%	7.0%	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%	9.5%
Free Cash Flow	$830	$610	$667	$667	$734	$920	$921	$1,171	$1,145	$1,277
Income Tax	$317	$252	$262	$337	$446	$353	$3	$283	$222	$173

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	19552	19617	19949	20094	20536	20630	21147	21617	22684	23430
Cash & Equivalents	$66	$68	$213	$75	$32	$68	$83	$71	$47	$38
Accounts Receivable	$826	$837	$891	$930	$963	$995	$1,106	$1,103	$1,126	$1,091
Inventories	$35	$35	$38	$36	$39	$44	$51	$53	$57	$59
Goodwill & Int. Ass.	11057	11049	11040	11130	11392	11346	11457	11507	11767	12220
Total Liabilities	11868	11911	12043	12346	12759	12936	13186	13688	14563	14950
Accounts Payable	$564	$475	$511	$527	$577	$554	$598	$762	$778	$779
Long-Term Debt	$6,922	$7,071	$7,018	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689	$8,934
Shareholder's Equity	$7,681	$7,703	$7,904	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118	$8,484
D/E Ratio	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.0%	2.9%	3.0%	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%	4.2%
Return on Equity	7.6%	7.4%	7.5%	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%	11.7%
ROIC	4.0%	3.9%	4.0%	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%	5.7%
Shares Out.	378	368	363	358	351	344	339	328	322	320
Revenue/Share	$21.70	$22.06	$23.16	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99	$31.75
FCF/Share	$2.20	$1.66	$1.84	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56	$3.99

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