Ecolab Inc. (ECL)

Updated October 27th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$230	**5 Year CAGR Estimate:**	-2.0%	**Market Cap:**	$66.5 B
Fair Value Price:	$106	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	12/13/2021[1]
% Fair Value:	217%	**5 Year Valuation Multiple Estimate:**	-14.4%	**Dividend Payment Date:**	1/14/2022
Dividend Yield:	0.8%	**5 Year Price Target**	$195	**Years Of Dividend Growth:**	35
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.1%

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 $66.5 billion with annual revenue of almost $15 billion. With 35 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In late October, Ecolab reported (10/26/21) financial results for the third quarter of fiscal 2021. Organic revenue grew 8% over last year's quarter and adjusted earnings-per-share grew 20% thanks to volume growth and price hikes, which more than offset increased product costs. The steep recovery of the U.S. restaurant and lodging markets from the pandemic more than offset cost inflation and the decline in the sales of the healthcare segment, which resulted from the abnormally high sales in last year's quarter amid the pandemic. Ecolab expects the strong momentum to remain in place in the upcoming quarters and expects double-digit earnings-per-share growth in the fourth quarter, albeit below 20%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.54	$2.98	$3.54	$4.18	$4.37	$4.37	$4.69	$5.25	$5.82	$4.02	***$5.30***	***$9.76***
DPS	$0.73	$0.83	$0.97	$1.16	$1.34	$1.42	$1.52	$1.64	$1.84	$1.88	***$1.92***	***$3.00***
Shares[2]	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	288.7	***289.0***	***280.0***

Ecolab has significantly grown its earnings-per-share in the last decade, apart from the flat year in 2016 and 2020 due to the pandemic. This consistent growth record is a testament to the strength of its business model and execution and reveals that the company is on a reliable growth trajectory. Ecolab compounded its adjusted earnings-per-share at a rate of 10.9% per year during 2011-2019. It incurred a decline last year due to the pandemic, but we view this headwind as temporary, as the global economy has begun to recover. We expect Ecolab to grow its earnings-per-share at a 13.0% 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 2020, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.4	21.8	25.4	26.0	25.9	26.3	27.5	27.6	31.8	49.2	***43.4***	***20.0***
Avg. Yld.	1.4%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	***0.8%***	***1.5%***

[1] Estimated date.

[2] In millions.

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Ecolab is currently trading at a price-to-earnings ratio of 43.4, which is a markedly rich valuation level, primarily due to expectations for a recovery from the pandemic. Although the stock has traded at an average price-to-earnings ratio of 28.2 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 -14.4% headwind to the annualized returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	28.7%	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	31.2%	31.6%	46.8%	***36.2%***	***30.7%***

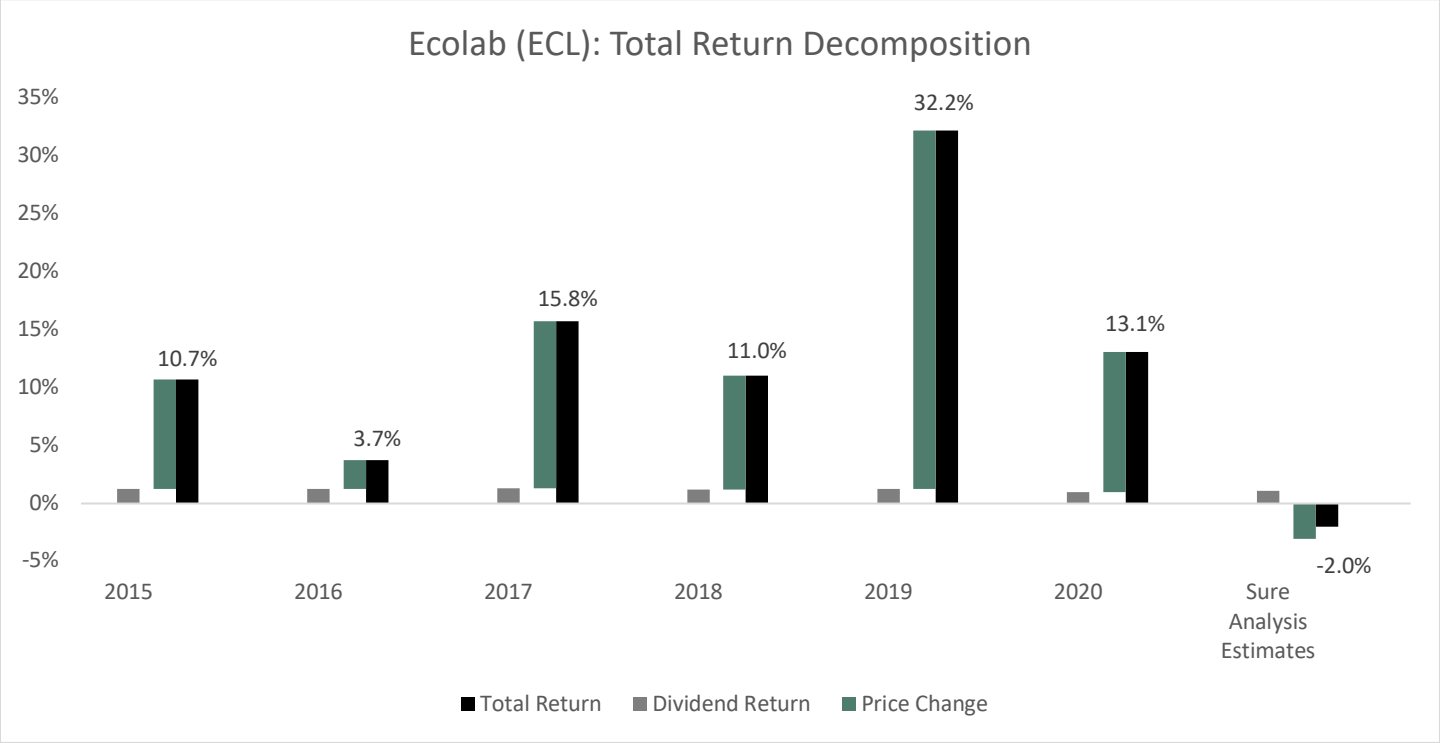
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet and its interest expense consumes just 11% of its operating income.

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 for investors. We expect Ecolab to continue to recover strongly from the pandemic in the upcoming quarters. 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 22.7 times its expected 2026 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6,799	11,839	13,253	14,281	13,545	13,152	13,836	14,668	14,906	11,790
Gross Profit	3,323	5,453	6,092	6,601	6,322	5,618	5,772	6,042	6,183	4,884
Gross Margin	48.9%	46.1%	46.0%	46.2%	46.7%	42.7%	41.7%	41.2%	41.5%	41.4%
SG&A Exp.	2,438	4,018	4,360	4,578	4,346	3,708	3,825	3,969	3,958	3,309
D&A Exp.	396	715	816	872	860	851	893	938	973	---
Operating Profit	885	1,435	1,732	2,024	1,976	1,910	1,946	2,074	2,225	1,575
Operating Margin	13.0%	12.1%	13.1%	14.2%	14.6%	14.5%	14.1%	14.1%	14.9%	13.4%
Net Profit	463	704	968	1,203	1,002	1,229	1,505	1,429	1,559	-1,205
Net Margin	6.8%	5.9%	7.3%	8.4%	7.4%	9.3%	10.9%	9.7%	10.5%	-10.2%
Free Cash Flow	320	596	898	1,022	1,185	1,183	1,223	1,431	1,620	---
Income Tax	216	311	325	476	301	403	244	364	323	177

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	18,185	17,572	19,637	19,427	18,642	18,330	19,964	20,075	20,869	18,126
Cash & Equivalents	1,844	1,158	339	210	93	327	211	115	186	1,260
Accounts Receivable	2,095	2,225	2,568	2,627	2,390	2,341	2,571	2,663	2,797	2,274
Inventories	1,070	1,088	1,322	1,467	1,388	1,319	1,447	1,546	1,506	1,285
Goodwill & Int. Ass.	10,131	9,965	11,648	11,174	10,600	10,201	11,185	10,876	10,924	8,984
Total Liabilities	12,444	11,412	12,227	12,045	11,661	11,359	12,310	12,021	12,143	11,925
Accounts Payable	816	880	1,022	1,162	1,050	983	1,177	1,256	1,284	1,161
Long-Term Debt	7,636	6,542	6,905	6,548	6,466	6,687	7,323	7,045	6,354	6,687
Shareholder's Equity	5,667	6,077	7,344	7,316	6,910	6,901	7,584	8,003	8,685	6,167
D/E Ratio	1.35	1.08	0.94	0.90	0.94	0.97	0.97	0.88	0.73	1.08

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.0%	3.9%	5.2%	6.2%	5.3%	6.6%	7.9%	7.1%	7.6%	-6.2%
Return on Equity	11.9%	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%	18.3%	18.7%	-16.2%
ROIC	5.7%	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%	9.5%	10.3%	-8.6%
Shares Out.	292.0	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	288.7
Revenue/Share	28.08	39.61	43.33	46.68	44.94	44.33	47.06	50.10	50.96	40.61
FCF/Share	1.32	1.99	2.93	3.34	3.93	3.99	4.16	4.89	5.54	---

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

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