



Covanta Holding Corporation (CVA)

Updated November 7th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	-12.2%	Market Cap:	\$2.69 B
Fair Value Price:	\$5.55	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/30/21 ¹
% Fair Value:	365%	5 Year Valuation Multiple Estimate:	-22.8%	Dividend Payment Date:	01/08/22
Dividend Yield:	1.6%	5 Year Price Target	\$4	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

Covanta Holding Corporation was originally called Ogden Corporation, a holding company for utility businesses' investments. Ogden Corporation was founded in 1939. In 2001, Ogden's name was changed to Covanta to represent its focus on energy. Covanta Holding Corp. is headquartered in Morristown, New Jersey. The Company provides Waste-to-Energy (WtE) facilities that convert approximately 21 million tons of waste from municipalities and businesses into clean, renewable electricity to power one million homes and recycle 500,000 tons of metal. Covanta charges a fee for waste disposal, sells electricity produced in the process, and recovers metal for recycling. Most of the company revenue comes from the Waste and Service segment. The Waste and Service segment made up 74% of total revenue for the fiscal year (FY) 2020. The other significant segments are the Energy segment and the Recycled metals segment, which made up 17% and 6% of total sales. In total, the Company generated revenue of approximately \$1,904 billion in FY2020. The Company's current market capitalization is \$2.69 billion.

On October 28, 2021, the Company reported third-quarter results for Fiscal Year (FY)2021. Covanta saw limited disruption during the COVID-19 economic shutdown as the Company provides essential services. For the quarter, the Company saw revenues higher from \$491 million in the third quarter of 2020 to now \$539 million, or 9.8% year over year. For the first nine months of FY2021, the Company has generated \$1,543 million of sales compared to \$1,413 million in the first nine months of FY2020, which is an increase of 9.2%. The increase in sales has been driven by growth in all areas from higher prices and volumes. CVA reported an operating income of \$74 million for the quarter compared to \$50 million in 3Q20. Net income was a gain of \$30 million for the quarter vs. a net gain of \$5 million in 3Q20.

On October 12, 2021, Covanta stockholders approved the Company's acquisition by EQT Infrastructure for \$20.25 per share in cash, in a deal valued at \$5.3 billion. The acquisition is expected to be completed during the fourth quarter of 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.54	\$0.86	(\$0.05)	(\$0.02)	\$0.51	(\$0.03)	\$0.44	\$1.15	\$0.08	(\$0.21)	\$0.37	\$0.60
DPS	\$0.30	\$0.66	\$0.86	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.49	\$0.32	\$0.32
Shares²	142.0	133.0	130.0	130.0	133.0	129.0	131.0	132.0	133.0	132.0	137.0	137.0

Covanta's future growth prospects will mostly come from expanding its customer base with service offerings and energy contracts. However, the biggest driver for growth would come from project development or acquisitions in selected attractive markets and through the development of new facilities. The past 10-year earnings growth rate has been both volatile and weak.

Earnings should return to being positive in 2021. We expect an earnings growth of 10% for the next five years. The main drivers for the growth will be the increased volumes of waste processed, metals recovered, and electricity sold and the impact of the New York City Marine Transfer Station's operations. Covanta started paying out dividends in 2011 and

¹ Ex-Dividend Date and Dividend Payment Date are estimates.

² Share count is in millions.

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grew them until 2015. We do not expect any dividend increase in the foreseeable future as the Company will face negative earnings this year. For our earnings estimate for FY2021, we will use normalized earnings of \$0.37 per share to calculate fair value and total return estimates.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.9	21.4	---	---	30.4	---	38.6	11.6	197.3	---	54.7	15.00
Avg. Yld.	2.2%	3.3%	3.7%	3.9%	6.5%	6.4%	5.9%	7.5%	6.7%	3.7%	1.6%	3.6%

A few years ago, earnings were negative; thus, the PE ratio is very erratic. However, the 10-year PE average is 30.8. We do not think this is a reasonable ratio. We believe a PE of 15 is on par with other companies in the industrial sector.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	19.5%	76.7%	---	---	196.1%	---	227.3%	87.0%	---	---	86%	54%

The Company's earnings are very cyclical, and it showed in the 2008-2009 Great Recession. The Company's stock saw a maximum drawdown of 52.9%. EPS also declined from \$0.90 in 2008 to \$0.66 in 2009, a 27% decrease. In 2010, earnings decreased by \$0.40, then rebounded to \$1.54 in 2011 for an increase of 285%.

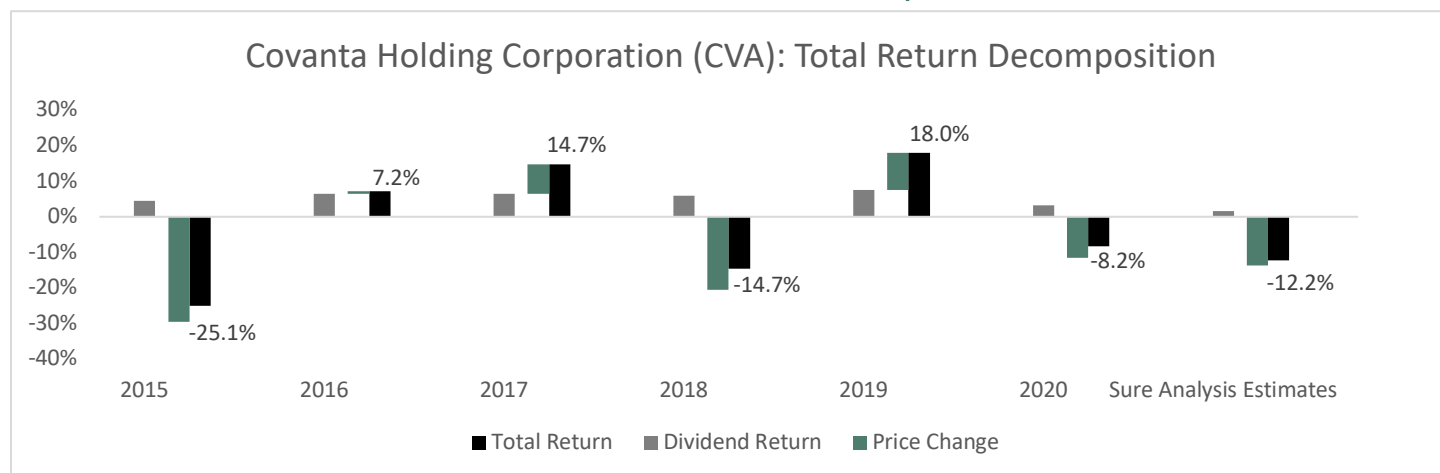
Covanta operates in an industry with high capital expenditures, which creates a barrier to entry; this is its competitive advantage.

Covanta is heavily leveraged, and its balance sheet looks to be stretched thin. The Company has an interest coverage ratio of 1.1 and a high debt to equity ratio of 11.1, both very concerning. S&P assigns a Credit Rating of B+ for Covanta, which is a "Highly Speculative" rating. The dividend payout ratio has seen years where it was over 100%. The high payout has led the Company to cut the dividend earlier last year by 68%. There is a good chance the Company will cut its dividend again as earnings are expected to be less than the dividend this year.

Final Thoughts & Recommendation

Covanta is highly leveraged, and we only see an expected negative return of (12.2)%, which is unsatisfactory for the risk involved with this speculative stock. We rate this Company as a Sell at the current price and only for highly speculative investors. Since the Company is being bought out as a cash buyout, it is no longer tradeable.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1650	1643	1630	1682	1645	1699	1752	1868	1870	1904
SG&A Exp.	84	78	82	97	93	100	112	115	122	120
D&A Exp.	193	194	209	211	198	207	215	218	221	224
Operating Profit	254	251	250	218	152	129	103	149	92	88
Operating Margin	15.4%	15.3%	15.3%	13.0%	9.2%	7.6%	5.9%	8.0%	4.9%	4.6%
Net Profit	219	116	-9	-2	68	-4	57	152	10	-28
Net Margin	13.3%	7.1%	-0.6%	-0.1%	4.1%	-0.2%	3.3%	8.1%	0.5%	-1.5%
Free Cash Flow	243	215	128	125	-122	-95	-35	32	68	92
Income Tax	35	31	43	15	-84	22	-191	-29	-7	-18

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4385	4526	4380	4206	4234	4284	4441	3843	3715	3706
Cash & Equivalents	232	243	195	84	94	84	46	58	37	55
Accounts Receivable	260	256	264	299	312	332	341	338	240	260
Goodwill & Int. Ass.	809	671	650	605	623	599	600	600	579	539
Total Liabilities	3297	3471	3474	3422	3594	3815	4014	3356	3339	3396
Accounts Payable	25	40	24	33	90	98	151	76	36	75
Long-Term Debt	2166	2332	2321	2198	2461	2635	2523	2494	2516	2539
Shareholder's Equity	1083	1048	902	782	638	469	427	487	376	310
D/E Ratio	2.0	2.2	2.6	2.8	3.9	5.6	5.9	5.1	6.7	8.19

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.8%	2.6%	-0.2%	0.0%	1.6%	-0.1%	1.3%	3.7%	0.3%	-0.8%
Return on Equity	19.8%	10.9%	-0.9%	-0.2%	9.6%	-0.7%	12.7%	33.3%	2.3%	-8.2%
ROIC	6.5%	3.5%	-0.3%	-0.1%	2.2%	-0.1%	1.9%	5.1%	0.3%	-1.0%
Shares Out.	142	133	130	130	133	129	131	132	133	132
Revenue/Share	\$11.62	\$12.35	\$12.54	\$12.94	\$12.37	\$13.17	\$13.37	\$14.15	\$14.06	\$14.42
FCF/Share	\$1.71	\$1.62	\$0.98	\$0.96	-\$0.92	-\$0.74	-\$0.27	\$0.24	\$0.51	\$0.70

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

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