Republic Services Inc. (RSG)

Updated February 11th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$39.8 B
Fair Value Price:	$120	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/30/2022
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	04/14/2022
Dividend Yield:	1.5%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	8.2%

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 dividend since its first one in 2004. The company generates around $11 billion in annual revenues and is based in Phoenix, Arizona.

On February 9th, 2022, Republic Services confirmed it agreed to buy US Ecology (ECOL) for $48/share in cash.

On February 10th, 2022, Republic Services reported its Q4 results for the period ending December 31st, 2021. For the quarter, adjusted EPS was $1.02, 2% higher than Q4-2020, while revenues grew 14.8% year-over-year to $2.95 billion. Revenues were boosted by higher pricing and acquisitions, but profitability was slightly offset by higher general and administrative expenses. Last year's Q4 EPS had also been boosted by two one-off effects: a debt extinguishment loss and a loss on divestitures. These had boosted EPS by $0.15 and $0.11 on an adjusted basis, respectively.

EBITDA margin once again expanded compared to last year, by 60 basis points to 30.0% for the full year, positively contributing to adjusted EPS growth of 17.1% to $4.17. Given the continued strength in the business, management now expects FY2022 adjusted EPS to land between $4.58 and $4.65, the midpoint of which we have utilized in our estimates. Further, adjusted free cash flow is now expected within the range of $1.625 billion to $1.675 billion.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.56	$1.63	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	$3.56	$4.17	***$4.62***	***$6.79***
DPS	$0.91	$0.99	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	$1.66	$1.77	***$1.84***	***$2.52***
Shares[1]	367	362	357	350	343	337	327	321	319	319	***319***	***280***

Republic Services' EPS CAGR has been around 11.5% over the past decade, while DPS CAGR has been about 7.7% 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 $252.2 million worth of its stock during 2021. The company's current repurchase program remains at $1.7 billion and is to be completed through 2023. It represents around 4.2% of the company's current market cap. Hence EPS is likely to grow by ~2% 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. 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

[1] Share count is in millions.

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prudent. We also retain our DPS growth estimates at 6.5%, which reflects the DPS growth acceleration following the latest increase and Republic's overall higher affordability for future dividend hikes.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.2	22.5	18.1	21.2	25.0	27.1	16.6	26.8	30.2	28.7	***27.2***	***26.0***
Avg. Yld.	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.4%	***1.5%***	***1.4%***

Over the past decade, investors have increasingly been appreciating Republic's stable and reliable cash flows, causing the stock to undergo a prolonged valuation expansion. Despite its robust guidance, RSG's forward P/E is currently hovering at a somewhat pricy P/E of around 27.2, modestly higher than its historical average. We continue to believe that a lower multiple around 26 is a fair one. Hence, we retain our valuations expectations. Republic is currently offering a low yield of just 1.5%. We expect the yield to remain quite low.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	61%	70%	54%	69%	35%	45%	47%	47%	42%	40%	***38%***

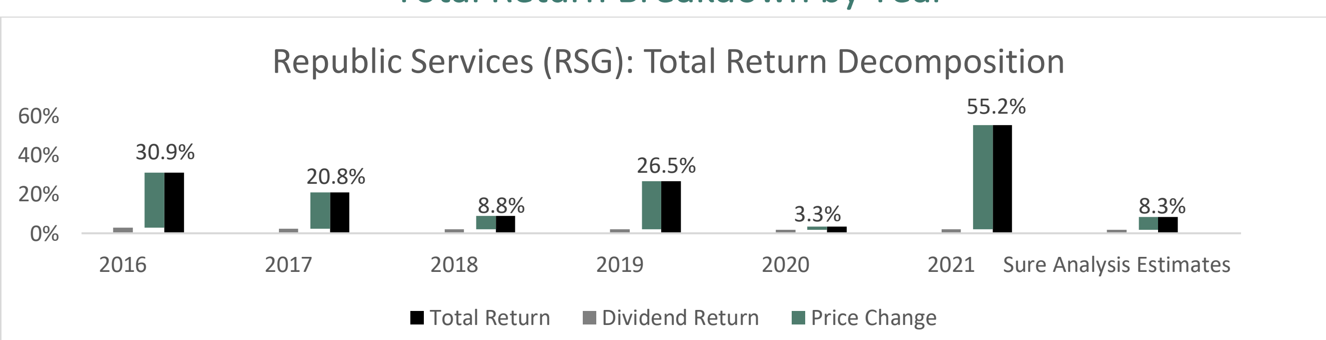
The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases and Republic Services' robust customer base (which includes municipalities) allow it to operate in an extremely low volatility environment.

Further, the dividend remains very well-covered, at just 40% of Republic's adjusted 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. The recently announced acquisition of Ecology is great example of Republic executing strategic M&A to grow its market share and achieve operating synergies.

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. The company should shine in times of uncertainty and wild market swings, featuring its quality, low-volatility characteristics. Following the stock's correction and management's solid guidance, we now expect annualized returns of around 8.3% in the medium term. Based on our growth estimates, the Ecology acquisition, which should be accretive to EPS going forward, and the company's consistent capital returns, we believe that Republic Services offers a noteworthy investment case. The stock earns a hold rating at its current price levels.

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	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
LTD/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.