Republic Services Inc. (RSG)

Updated May 16th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$131	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$41.3 B
Fair Value Price:	$116	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/30/2022
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	07/15/2022
Dividend Yield:	1.4%	**5 Year Price Target**	$170	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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, since the first one was declared 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 May 5th, 2022, Republic Services reported its Q1 results for the period ending March 31st, 2022. For the quarter, adjusted EPS was $1.14, 23% higher than Q1 2021, while revenues grew 14.3% year-over-year to $2.97 billion. Higher revenues were driven by higher pricing and acquisitions, while adjusted EPS was further boosted by higher margins and a lower share count. EBITDA margin expanded by 40 basis points sequentially, despite declining by 30 basis points compared to last year. The net income margin expanded 42 basis points year-over-year.

Management intends to incorporate the contribution from US Ecology into the full-year guidance in July. Until then, we are making use of the prior guidance, which forecasts FY2022 adjusted EPS to land between $4.58 and $4.65. We have utilized the midpoint of this range 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	***317***	***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 and $203.5 million worth of its stock during 2021 and Q1 2022, respectively. The company's current repurchase program remains at $1.5 billion and is to be completed by 2023. It represents around 3.6% of the company's current market cap. Hence EPS is likely to grow by ~1.8% annually at the current stock's price levels from share repurchases alone. For context, since 2010, the company has retired around 19% 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 2027, though we remain 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.

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[1] Share count is in millions.

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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	***28.3***	***25.0***
Avg. Yld.	3.3%	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.4%	***1.4%***	***1.5%***

Over the past decade, investors have been increasingly appreciative of Republic Services' stable and reliable cash flows, causing the stock to undergo a prolonged valuation expansion. Despite its robust guidance, Republic Serices' forward P/E is currently hovering at a somewhat pricy P/E of around 28.3, notably higher than its historical average. We continue to believe that a lower multiple around 25 is a fair one. Hence, shares may be subject to valuation headwinds. Republic Services is currently offering a low yield of just 1.4%. We expect the yield to remain quite soft.

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%***

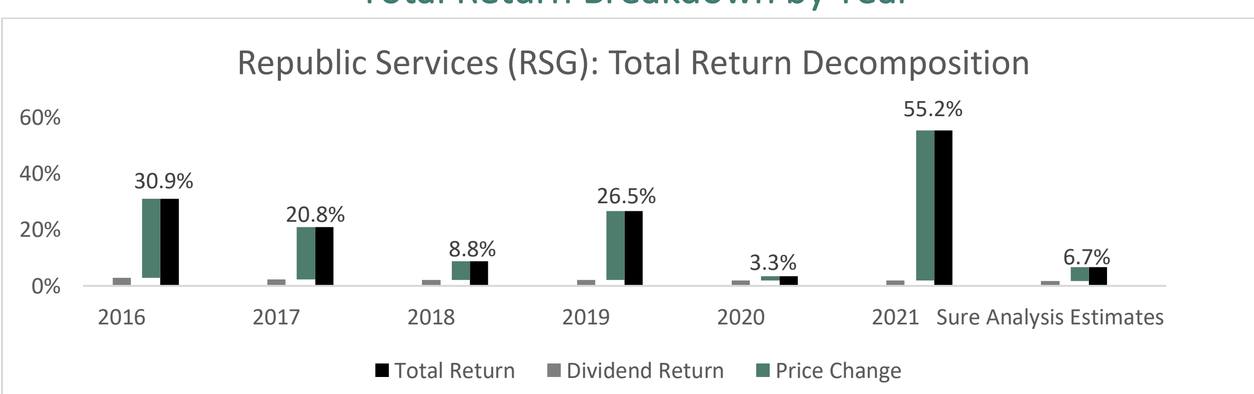
The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases 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, exhibiting its quality and low-volatility characteristics. This was illustrated over the past few months, with shares holding their ground despite wild volatility in the equity markets. However, despite our notable growth estimates, valuation headwinds could limit shareholders' annualized returns, which we project to be 6.7% through 2027. Still, with the Ecology acquisition likely to 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	$8,118	$8,417	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299	$10,150	$11,300
Gross Profit	$3,113	$3,183	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001	$4,053	$4,557
Gross Margin	38.3%	37.8%	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%	39.9%	40.3%
SG&A Exp.	$827	$995	$898	$965	$955	$1,059	$1,013	$1,042	$1,060	$1,176
Operating Profit	$1,283	$1,176	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803	$1,807	$2,093
Operating Margin	15.8%	14.0%	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%	17.8%	18.5%
Net Profit	$572	$589	$548	$750	$613	$1,278	$1,037	$1,073	$967	$1,290
Net Margin	7.0%	7.0%	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%	9.5%	11.4%
Free Cash Flow	$610	$667	$667	$734	$920	$921	$1,171	$1,145	$1,277	$1,470
Income Tax	$252	$262	$337	$446	$353	$3	$283	$222	$173	$283

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19617	19949	20094	20536	20630	21147	21617	22684	23430	$24,960
Cash & Equivalents	$68	$213	$75	$32	$68	$83	$71	$47	$38	$29
Accounts Receivable	$837	$891	$930	$963	$995	$1,106	$1,103	$1,126	$1,091	$1,271
Inventories	$35	$38	$36	$39	$44	$51	$53	$57	$59	$72
Goodwill & Int. Ass.	11049	11040	11130	11392	11346	11457	11507	11767	12220	$13,090
Total Liabilities	11911	12043	12346	12759	12936	13186	13688	14563	14950	$15,980
Accounts Payable	$475	$511	$527	$577	$554	$598	$762	$778	$779	$910
Long-Term Debt	$7,071	$7,018	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689	$8,934	$9,554
Shareholder's Equity	$7,703	$7,904	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118	$8,484	$8,979
LTD/E Ratio	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.0%	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%	4.2%	5.3%
Return on Equity	7.4%	7.5%	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%	11.7%	14.8%
ROIC	3.9%	4.0%	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%	5.7%	7.2%
Shares Out.	368	363	358	351	344	339	328	322	320	319.4
Revenue/Share	$22.06	$23.16	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99	$31.75	$35.36
FCF/Share	$1.66	$1.84	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56	$3.99	$4.60

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