



Waste Management, Inc. (WM)

Updated July 28th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$162	5 Year CAGR Estimate:	-1.1%	Market Cap:	\$66 B
Fair Value Price:	\$114	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	09/02/22
% Fair Value:	142%	5 Year Valuation Multiple Estimate:	-6.8%	Dividend Payment Date¹:	09/19/22
Dividend Yield:	1.6%	5 Year Price Target	\$139	Years Of Dividend Growth:	19
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Waste Management is North America's leading provider of environmental solutions. The company provides waste collection, transfer, recycling, and disposal services to a diverse customer lineup including residential, commercial, industrial, and municipal customers. The company also owns and operates landfill gas-to-energy facilities in the U.S. The \$66 billion market cap company generated \$18 billion in revenue last year. Waste Management acquired Advanced Disposal Services for \$4.9 billion in October of 2020.

On July 27th, 2022, Waste Management released Q2 2022 results for the period ending June 30th, 2022. For the quarter, the company generated revenue of \$5.03 billion, a 12.3% increase compared to Q2 2021. Adjusted net income equaled \$907 million or \$1.44 per share compared to \$813 million or \$1.27 per share in Q2 2021. Total company volumes rose 1.6% in Q2 compared to an increase of 9.2% in the same prior year period.

During Q1, Waste Management repurchased \$270 million of common stock. The company also returned \$269 million to shareholders in the form of cash dividends.

Waste Management upgraded its outlook for 2022. The company now anticipates 10 % (up from 5.8% to 6.2%) revenue growth and \$5.5 billion to \$5.6 billion in adjusted operating EBITDA.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.08	\$2.15	\$2.48	\$2.53	\$2.91	\$3.22	\$4.20	\$4.40	\$4.03	\$4.84	\$5.70	\$6.95
DPS	\$1.42	\$1.46	\$1.50	\$1.54	\$1.64	\$1.70	\$1.86	\$2.05	\$2.18	\$2.30	\$2.60	\$3.16
Shares²	464	464	459	447	439	433	424	428	425	423	417.0	410.0

In the 2008 through 2019 stretch, Waste Management grew its earnings-per-share by 6.5% annually. In 2020 results declined -8% amid the COVID-19 pandemic, however earnings bounced back materially in 2021.

Waste Management operates in an industry dominated by only a few competitors, which lends the company pricing power. It also has the opportunity to grow through higher volumes, due to population growth and new customer additions. Thanks to the consistency of its business model and industry leadership position, Waste Management has the ability to retain key customers while attracting new customers. As a counterpoint to this, the waste disposal industry in the U.S. is saturated. Still, the company certainly stands to collect its "fair share" of industry growth and price increases over time. Moreover, acquisitions along the way, such as Advanced Disposal Services, should assist growth.

We expect earnings to continue to be strong in 2022 as the company gets back to growth. In addition, we are still forecasting 4% annual earnings growth over the next five years, implying the expectation for \$6.95 in earnings-per-share over the next five years.

¹ Estimate

² 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.2	18.9	18.2	20.4	21.3	23.4	20.7	24.8	27.5	28.3	28.5	20.0
Avg. Yld.	4.2%	3.6%	3.3%	3.0%	2.6%	2.3%	2.1%	1.9%	2.0%	1.7%	1.6%	2.3%

Over the past decade, shares of Waste Management have traded hands with an average P/E ratio of roughly 23 times earnings. We believe that shares tend to trade at a premium not necessarily as a result of extraordinary growth expectations, but instead due to the company's strong brand, industry leadership position and recession-resistant business model – a “safe haven,” if you will. Still, even if growth does formulate in the years to come, the current valuation of nearly 29 times expected earnings could be a significant drag on future returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	68%	68%	60%	61%	56%	53%	44%	47%	54%	48%	46%	46%

Waste Management scores well in terms of safety and quality. The company enjoys a wide economic “moat,” in that it provides a necessary service, and it is the largest operator in an industry that is highly regulated.

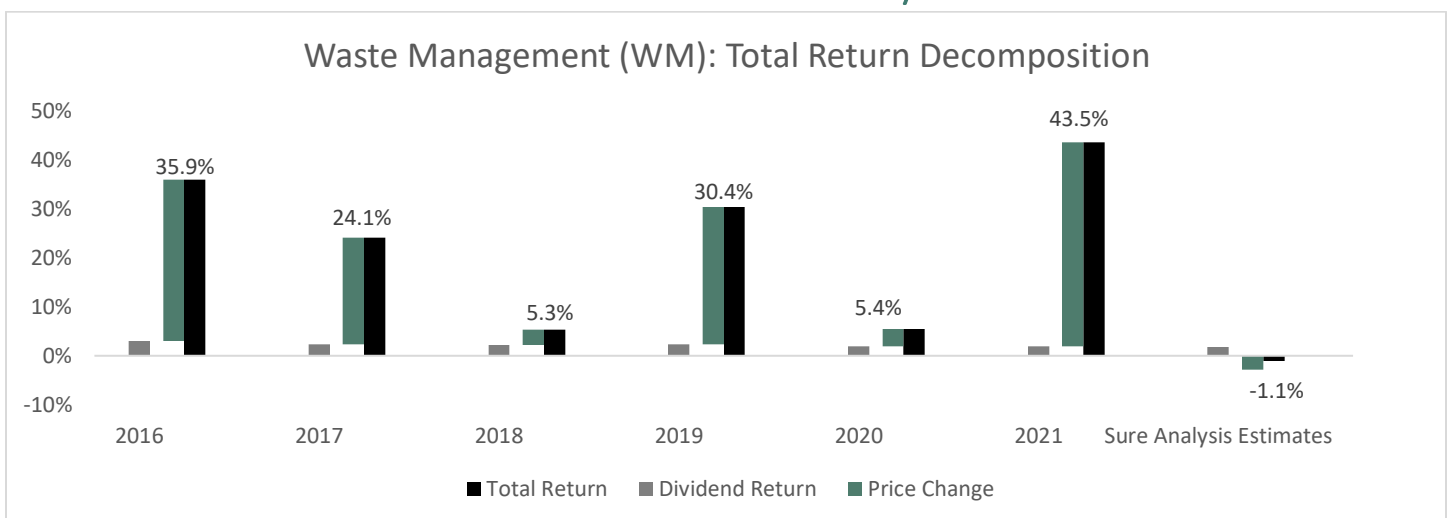
The company should also perform reasonably in the next recession, as people still require waste disposal services in good times or bad. During the last recession, Waste Management posted earnings-per-share of \$2.19, \$2.00, \$2.10, and \$2.14 during the 2008 through 2011 stretch. Moreover, the dividend kept on increasing as well. In COVID-19 crisis, earnings fell -8% but have still been resilient. Likewise, the dividend continues to increase.

As of the most recent quarterly report Waste Management held \$993 million in cash, \$4.0 billion in current assets and \$30.1 billion in total assets against \$3.7 billion in current liabilities and \$22.9 billion in total liabilities. Long-term debt stood at \$14.0 billion.

Final Thoughts & Recommendation

Shares are essentially flat year-to-date, which compares favorably to the broader market. Waste Management is a high-quality business. While the growth expectations are not tremendous, the business ranks well for consistency and performance in lesser times. However, we are not enthused by the (1.1%) total return proposition, as our forecast of 4% annual growth and the 1.6% dividend yield could be offset by a significant valuation headwind. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13649	13983	13996	12961	13609	14485	14914	15455	15220	17931
Gross Profit	4770	4871	4994	4730	5123	5464	5665	5959	5877	6820
Gross Margin	34.9%	34.8%	35.7%	36.5%	37.6%	37.7%	38.0%	38.6%	38.6%	38.0%
SG&A Exp.	1412	1427	1440	1307	1370	1426	1400	1593	1674	1827
D&A Exp.	1297	1333	1292	1245	1301	1376	1477	1574	1671	1999
Operating Profit	2001	2070	2221	2142	2412	2620	2735	2754	2478	2957
Op. Margin	14.7%	14.8%	15.9%	16.5%	17.7%	18.1%	18.3%	17.8%	16.3%	16.5%
Net Profit	817	98	1298	753	1182	1949	1925	1670	1496	1816
Net Margin	6.0%	0.7%	9.3%	5.8%	8.7%	13.5%	12.9%	10.8%	9.8%	10.1%
Free Cash Flow	785	1184	1180	1295	1664	1671	1876	2056	1771	2434
Income Tax	443	364	413	308	642	242	453	434	397	532

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	23097	22603	21297	20367	20859	21829	22650	27743	29340	29097
Cash & Equivalents	194	58	1307	39	32	22	61	3561	553	118
Acc. Receivable	1737	1699	1587	1549	1700	1805	1931	1949	2097	2278
Inventories	174	178	106	92	90	96	102	106	124	135
Goodwill & Int.	6688	6599	6180	6461	6806	6794	7002	7053	10020	9926
Total Liabilities	16422	16601	15408	15000	15539	15787	16374	20673	21890	21971
Accounts Payable	842	744	740	721	799	1040	1037	1065	1121	1375
Long-Term Debt	9916	10226	9435	8929	9310	9491	10026	13498	13810	13405
Total Equity	6354	5707	5866	5345	5297	6019	6275	7068	7452	7124
LTD/E Ratio	1.56	1.79	1.61	1.67	1.76	1.58	1.60	1.91	1.85	1.88

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.6%	0.4%	5.9%	3.6%	5.7%	9.1%	8.7%	6.6%	5.2%	6.2%
Return on Equity	13.2%	1.6%	22.4%	13.4%	22.2%	34.4%	31.3%	25.0%	20.6%	24.9%
ROIC	5.0%	0.6%	8.2%	5.1%	8.2%	12.9%	12.1%	9.1%	7.2%	8.7%
Shares Out.	464	464	459	447	439	433	424	428	425	423
Revenue/Share	29.39	29.76	30.06	28.43	30.48	32.78	34.51	36.15	35.80	42.40
FCF/Share	1.69	2.52	2.53	2.84	3.73	3.78	4.34	4.81	4.17	5.76

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

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