



Ecolab Inc. (ECL)

Updated August 16th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$177	5 Year CAGR Estimate:	3.4%	Market Cap:	\$49.6 B
Fair Value Price:	\$106	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	9/19/2022
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.7%	Dividend Payment Date:	10/17/2022
Dividend Yield:	1.2%	5 Year Price Target	\$195	Years Of Dividend Growth:	30
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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 \$49.6 billion with annual revenue of almost \$15 billion. With 30 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In late July, Ecolab reported (7/28/22) financial results for the second quarter of fiscal 2022. Organic sales grew 17% over last year's quarter, but the company was once again hurt by high-cost inflation, which greatly increased product costs. Ecolab entered the quarter with cost inflation of about 30%. Despite material price hikes, adjusted earnings-per-share dipped -10%. Due to the impact of inflation on the earnings of Ecolab, the stock has fallen -23% so far this year. This is a stern reminder of the risk of a stock trading at rich valuation levels when everything seems rosy (before the advent of inflation). On the bright side, management still expects strong sales growth in 2022 and expects much better bottom line performance in the second half of the year thanks to material price hikes.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.98	\$3.54	\$4.18	\$4.37	\$4.37	\$4.69	\$5.25	\$5.82	\$4.02	\$4.69	\$5.30	\$9.76
DPS	\$0.83	\$0.97	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$1.84	\$1.88	\$1.92	\$2.04	\$3.18
Shares¹	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	288.7	289.5	286.0	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 in 2020 due to the pandemic, but we view this headwind as temporary, as the global economy is recovering. 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 late 2021, Ecolab acquired Purolite for \$3.7 billion in cash. Purolite sells high-end ion exchange resins for the separation of solutions in over 30 countries. It generates annual sales of approximately \$0.4 billion. We expect more tuck-in acquisitions to materialize for Ecolab moving forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.8	25.4	26.0	25.9	26.3	27.5	27.6	31.8	49.2	46.7	33.4	20.0
Avg. Yld.	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	1.2%	1.6%

¹ In millions.

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Despite its -23% correction this year, Ecolab is trading at a price-to-earnings ratio of 33.4, which is a markedly rich valuation level. Although the stock has traded at an average price-to-earnings ratio of 30.8 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 -9.7% headwind to the annualized returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27.9%	27.4%	27.8%	30.5%	32.5%	32.4%	31.2%	31.6%	46.8%	40.9%	38.5%	32.6%

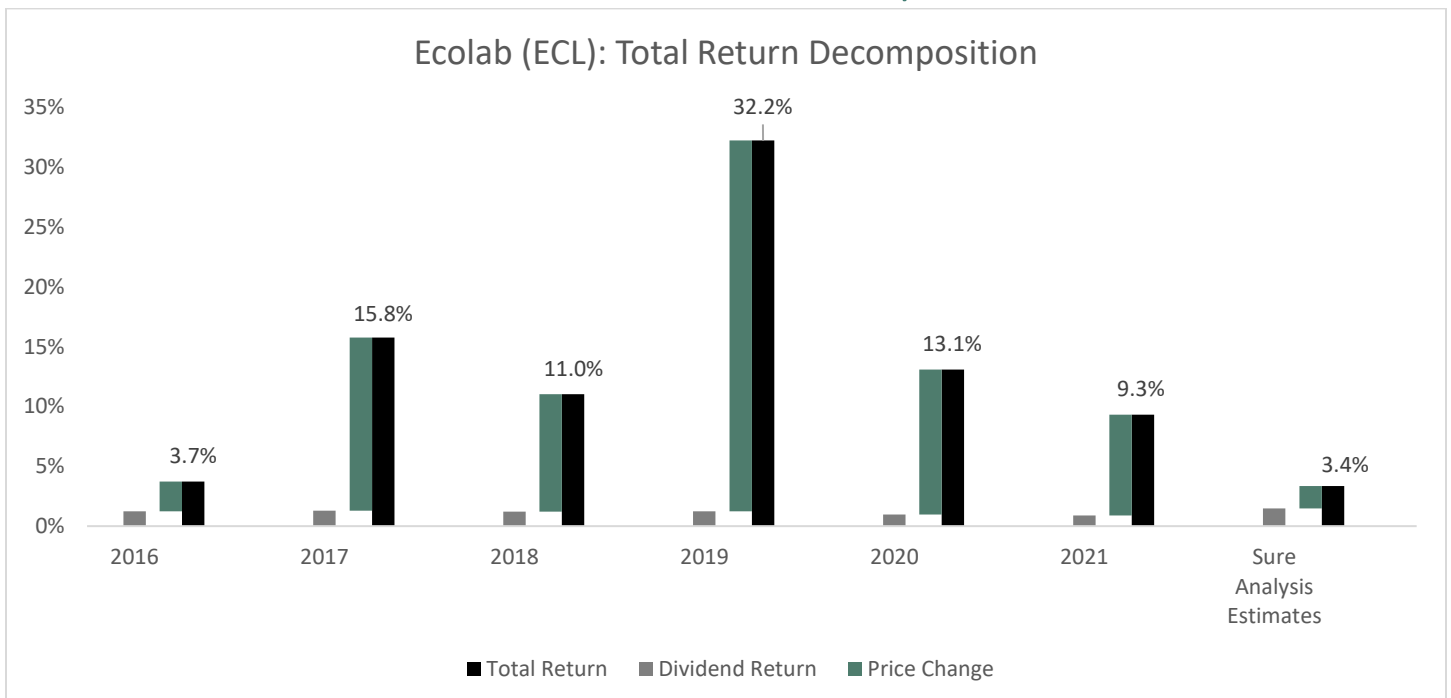
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet, and its interest expense consumes just 11% of its operating income.

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 9,000 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. 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 is trading at 18.1 times its expected 2027 earnings. As a result, Ecolab may offer just a 3.4% average annual return over the next five years even if it keeps growing strongly, as its 13.0% earnings growth and its 1.2% dividend may be partly offset by a -9.7% annualized valuation drag. We rate the stock as a hold. The risks of a rich valuation have been evident this year; the stock has shed -23% this year due to the unforeseen headwind from cost inflation even though the company grew its earnings-per-share 17% in 2021 and expects strong growth this year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,839	13,253	14,281	13,545	13,152	13,836	12,222	12,562	11,790	12,733
Gross Profit	5,453	6,092	6,601	6,322	5,618	5,772	5,347	5,516	4,884	5,117
Gross Margin	46.1%	46.0%	46.2%	46.7%	42.7%	41.7%	43.7%	43.9%	41.4%	40.2%
SG&A Exp.	4,018	4,360	4,578	4,346	3,708	3,825	3,506	3,551	3,309	3,416
D&A Exp.	715	816	872	860	851	893	730	775	813	843
Operating Profit	1,435	1,732	2,024	1,976	1,910	1,946	1,841	1,965	1,575	1,701
Operating Margin	12.1%	13.1%	14.2%	14.6%	14.5%	14.1%	15.1%	15.6%	13.4%	13.4%
Net Profit	704	968	1,203	1,002	1,229	1,505	1,429	1,559	(1,205)	1,130
Net Margin	5.9%	7.3%	8.4%	7.4%	9.3%	10.9%	11.7%	12.4%	-10.2%	8.9%
Free Cash Flow	596	898	1,022	1,185	1,183	1,223	1,499	1,689	1,371	1,419
Income Tax	311	325	476	301	403	244	321	289	177	270

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,572	19,637	19,427	18,642	18,330	19,964	20,075	20,869	18,126	21,206
Cash & Equivalents	1,158	339	210	93	327	211	115	119	1,260	360
Accounts Receivable	2,225	2,568	2,627	2,390	2,341	2,571	2,663	2,382	2,274	2,478
Inventories	1,088	1,322	1,467	1,388	1,319	1,447	1,546	1,082	1,285	1,492
Goodwill & Int. Ass.	9,965	11,648	11,174	10,600	10,201	11,185	10,876	8,497	8,984	12,288
Total Liabilities	11,412	12,227	12,045	11,661	11,359	12,310	12,021	12,143	11,925	13,953
Accounts Payable	880	1,022	1,162	1,050	983	1,177	1,256	1,075	1,161	1,384
Long-Term Debt	6,542	6,905	6,548	6,466	6,687	7,323	7,045	6,354	6,687	8,758
Shareholder's Equity	6,077	7,344	7,316	6,910	6,901	7,584	8,003	8,685	6,167	7,224
D/E Ratio	1.08	0.94	0.90	0.94	0.97	0.97	0.88	0.73	1.08	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	5.2%	6.2%	5.3%	6.6%	7.9%	7.1%	7.6%	-6.2%	5.7%
Return on Equity	12.0%	14.4%	16.4%	14.1%	17.8%	20.8%	18.3%	18.7%	-16.2%	16.9%
ROIC	5.4%	7.2%	8.5%	7.3%	9.1%	10.5%	9.5%	10.3%	-8.6%	7.8%
Shares Out.	294.7	300.8	299.9	296.0	291.8	293.6	292.2	292.6	288.7	289.5
Revenue/Share	39.61	43.33	46.68	44.94	44.33	47.06	41.74	42.95	40.61	44.04
FCF/Share	1.99	2.93	3.34	3.93	3.99	4.16	5.12	5.78	4.72	4.91

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

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