Republic Services Inc. (RSG)

Updated February 17th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$130	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$41.0 B
Fair Value Price:	$130	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	03/31/2023
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	04/14/2023
Dividend Yield:	1.5%	**5 Year Price Target**	$191	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 18 years, since the first one was declared in 2004. The company generates around $13.5 billion in annual revenues and is based in Phoenix, Arizona.

On February 16th, 2023, Republic Services reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, adjusted EPS was $1.13, 10.8% higher than Q4-2021, while revenues grew 19.5% year-over-year to $3.53 billion. Higher revenues were driven by higher pricing, higher volumes, and acquisitions, including the buyout of U.S. Ecology, which closed on May 2nd. Specifically, total revenue growth was driven by organic growth of 8.3% and an 11.2% contribution from acquisitions.

Adjusted EPS grew at a slightly slower pace than revenue due to slightly thinner margins. Specifically, the net income margin fell 80 basis points year-over-year to 9.8%, mainly due to a 25.3% increase in SG&A expenses. For the year, adjusted EPS grew by 18.2% to $4.93. Management introduced Republic Services' fiscal 2023 guidance, expecting full-year adjusted EPS to land between $5.15 and $5.23. We have utilized the midpoint of this range in our estimates. Further, adjusted free cash flow is expected within the range of $1.86 billion to $1.90 billion.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.63	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	$3.56	$4.17	$4.93	***$5.19***	***$7.63***
DPS	$0.99	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	1.66	1.77	1.91	***$1.98***	***$2.71***
Shares[2]	362	357	350	343	337	327	321	319	319	317	***317***	***280***

Republic Services' EPS CAGR has been around 13.1% over the past decade, while DPS CAGR has been about 7.6% over the same period. We retain our EPS growth estimate to 8%, sustained by the company's organic growth, contractually secured rate hikes, and stock buybacks. The company bought back $252.2 million and $592.9 million worth of its stock during 2021 and 2022, respectively. The company's current repurchase program remains at $1.5 billion and is to be completed within 2023. It represents around 3.7% of the company's current market cap.

Hence EPS is likely to grow by that much from share repurchases alone ceteris paribus. For context, since 2011, the company has retired around 18% of the outstanding shares. More contracts are switching to annual rate increases, and Republic is constantly beating and raising its own estimates. Thus, EPS growth is likely to be faster through 2028, 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] Estimated dates based on past dividend dates

[2] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.5	18.1	21.2	25.0	27.1	16.6	26.8	30.2	28.7	26.6	***25.0***	***25.0***
Avg. Yld.	2.9%	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.4%	1.5%	***1.5%***	***1.4%***

During the last decade, investors have shown a growing appreciation for the steady and dependable cash flows of Republic Services. This resulted in a lofty valuation between 2019 and 2022. However, with earnings gradually catching up to the previously elevated valuation levels, the stock's forward multiple has now adjusted to a more reasonable price-to-earnings ratio of 25, which matches our estimated fair multiple. Consequently, we do not anticipate any significant impact on the total returns from a valuation standpoint. Presently, Republic Services is providing a low yield of only 1.5%, and we predict that the yield will continue to remain near this level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	61%	70%	54%	69%	35%	45%	47%	47%	42%	39%	***38%***	***38%***

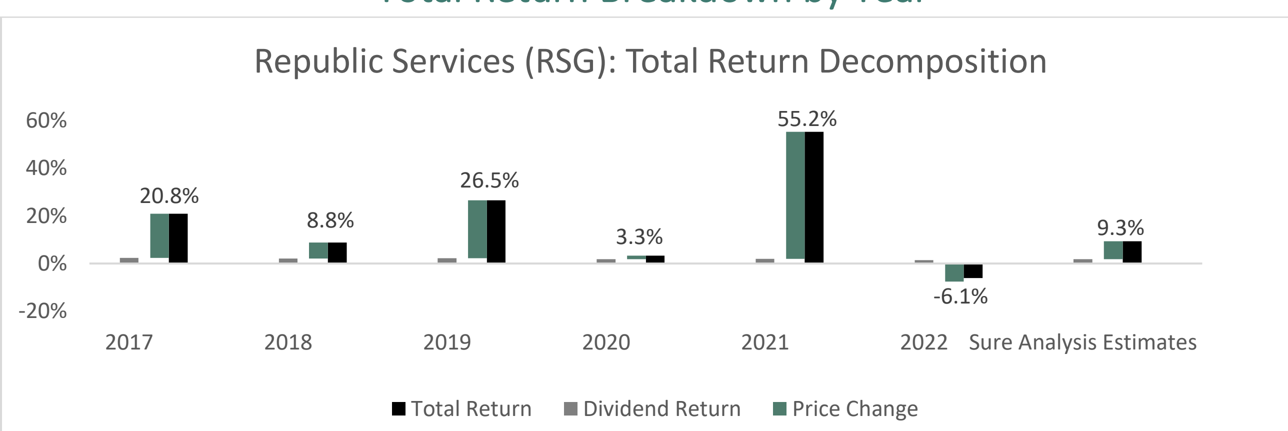
The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases 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. It equals just 38% of Republic's projected adjusted EPS. In FY2008, during the Great Financial Crisis, the company increased its revenues and also merged with Allied Waste Services to strengthen its market position. Most recently, the company acquired U.S. Ecology, also in a turbulent market environment. 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 during wild market swings, exhibiting its quality and low-volatility characteristics. We forecast annualized returns of 9.3% through 2028, which we expect to be powered by earnings growth of 8% and a starting dividend yield of 1.5%. The stock earns a hold 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	$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.