



Waste Management, Inc. (WM)

Updated February 2nd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$150	5 Year CAGR Estimate:	1.5%	Market Cap:	\$63 B
Fair Value Price:	\$120	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	03/16/23
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Dividend Payment Date¹:	03/31/23
Dividend Yield:	1.9%	5 Year Price Target	\$147	Years Of Dividend Growth:	20
Dividend Risk Score:	B	Retirement Suitability Score:	C	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 \$63 billion market cap company generated \$20 billion in revenue last year. Waste Management acquired Advanced Disposal Services for \$4.9 billion in October of 2020.

Waste Management announced it will raise its dividend to \$2.80 annually, which marks its 20th consecutive annual increase.

On January 31st, 2023, Waste Management reported fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, the company generated revenue of \$4.94 billion, a 5.5% increase compared to Q4 2021. Adjusted net income equaled \$537 million or \$1.30 per share compared to \$528 million or \$1.26 per share in Q4 2021. Total company volumes decreased by nearly 1.0% in Q4 compared to an increase of 2.8% in the same prior year period. For the full year, the company recorded adjusted earnings of \$5.59 per share, a strong 15.5% increase compared to 2021. During 2022, Waste Management repurchased \$1.5 billion of common stock. The company also returned \$1.08 billion to shareholders in the form of cash dividends.

Waste Management initiated its outlook for 2023. The company anticipates roughly 5% revenue growth and 7% adjusted operating EBITDA growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.15	\$2.48	\$2.53	\$2.91	\$3.22	\$4.20	\$4.40	\$4.03	\$4.84	\$5.59	\$6.01	\$7.33
DPS	\$1.46	\$1.50	\$1.54	\$1.64	\$1.70	\$1.86	\$2.05	\$2.18	\$2.30	\$2.60	\$2.80	\$3.41
Shares²	464	459	447	439	433	424	428	425	423	415	406.0	375.0

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 and soared in 2022.

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 growth to continue into 2023 and beyond as the company makes large investments, such as the recently announced \$980 million of capex on high-return growth projects in recycling and renewable energy, grows

¹ Estimate

² In millions.

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volumes, improves automation, and repurchases shares. We are forecasting 4% annual earnings growth over the next five years, implying the expectation for \$7.33 in earnings-per-share over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.9	18.2	20.4	21.3	23.4	20.7	24.8	27.5	28.3	28.4	25.0	20.0
Avg. Yld.	3.60%	3.30%	3.00%	2.60%	2.30%	2.10%	1.90%	2.00%	1.70%	1.5%	1.9%	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 25 times expected earnings could be a meaningful drag on future returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	68%	60%	61%	56%	53%	44%	47%	54%	48%	47%	47%	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.

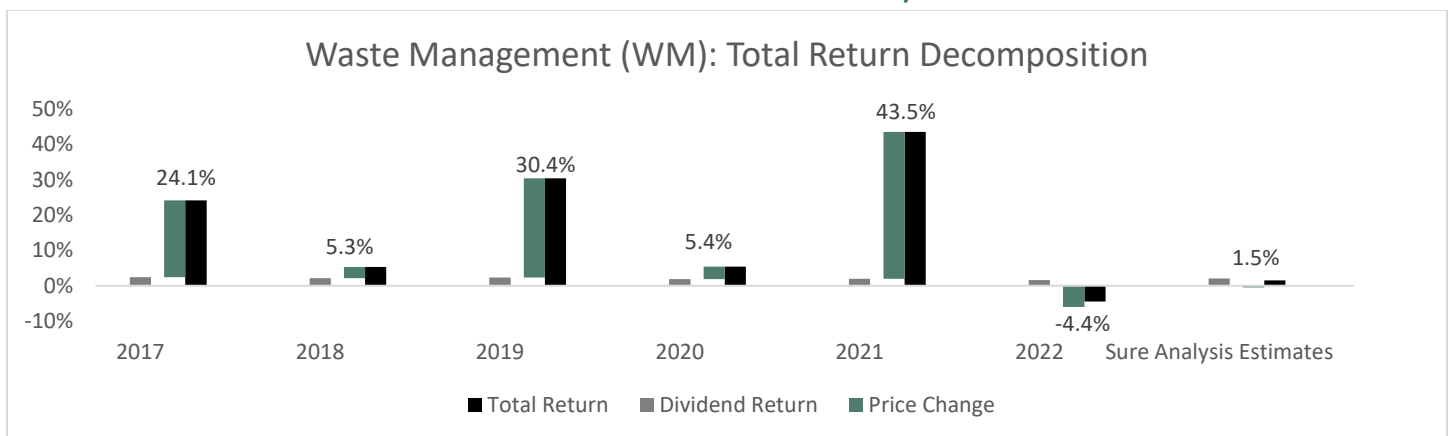
The company should also perform reasonably in the next recession, as people still require waste disposal services in good times or bad. During the last recession, Waste Management posted earnings-per-share of \$2.19, \$2.00, \$2.10, and \$2.14 during the 2008 through 2011 stretch. Moreover, the dividend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

As of the most recent quarterly report Waste Management held \$351 million in cash, \$3.6 billion in current assets and \$31.4 billion in total assets against \$4.4 billion in current liabilities and \$24.5 billion in total liabilities. Long-term debt stood at \$14.6 billion.

Final Thoughts & Recommendation

Shares are down 4% year-to-date, which compares unfavorably 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 1.5% total return proposition, as our forecast of 4% annual growth and the 1.9% dividend yield could be offset by a valuation headwind. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	13983	13996	12961	13609	14485	14914	15455	15220	17931	19698
Gross Profit	4871	4994	4730	5123	5464	5665	5959	5877	6820	7404
Gross Margin	34.8%	35.7%	36.5%	37.6%	37.7%	38.0%	38.6%	38.6%	38.0%	37.6%
SG&A Exp.	1427	1440	1307	1370	1426	1400	1593	1674	1827	1888
D&A Exp.	1333	1292	1245	1301	1376	1477	1574	1671	1999	1284
Operating Profit	2070	2221	2142	2412	2620	2735	2754	2478	2957	3428
Op. Margin	14.8%	15.9%	16.5%	17.7%	18.1%	18.3%	17.8%	16.3%	16.5%	17.4%
Net Profit	98	1298	753	1182	1949	1925	1670	1496	1816	2238
Net Margin	0.7%	9.3%	5.8%	8.7%	13.5%	12.9%	10.8%	9.8%	10.1%	11.4%
Free Cash Flow	1184	1180	1295	1664	1671	1876	2056	1771	2434	1949
Income Tax	364	413	308	642	242	453	434	397	532	678

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	22603	21297	20367	20859	21829	22650	27743	29340	29097	31367
Cash & Equivalents	58	1307	39	32	22	61	3561	553	118	351
Acc. Receivable	1699	1587	1549	1700	1805	1931	1949	2097	2278	2461
Inventories	178	106	92	90	96	102	106	124	135	164
Goodwill & Int.	6599	6180	6461	6806	6794	7002	7053	10020	9926	10150
Total Liabilities	16601	15408	15000	15539	15787	16374	20673	21890	21971	24503
Accounts Payable	744	740	721	799	1040	1037	1065	1121	1375	1766
Long-Term Debt	10226	9435	8929	9310	9491	10026	13498	13810	13405	14984
Total Equity	5707	5866	5345	5297	6019	6275	7068	7452	7124	6849
LTD/E Ratio	1.79	1.61	1.67	1.76	1.58	1.60	1.91	1.85	1.88	2.19

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	5.9%	3.6%	5.7%	9.1%	8.7%	6.6%	5.2%	6.2%	7.4%
Return on Equity	1.6%	22.4%	13.4%	22.2%	34.4%	31.3%	25.0%	20.6%	24.9%	32.0%
ROIC	0.6%	8.2%	5.1%	8.2%	12.9%	12.1%	9.1%	7.2%	8.7%	10.6%
Shares Out.	464	459	447	439	433	424	428	425	423	415
Revenue/Share	29.76	30.06	28.43	30.48	32.78	34.51	36.15	35.80	42.40	47.47
FCF/Share	2.52	2.53	2.84	3.73	3.78	4.34	4.81	4.17	5.76	4.70

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

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