



# Waste Management, Inc. (WM)

Updated May 1<sup>st</sup>, 2023 by Quinn Mohammed

## Key Metrics

|                             |       |  |       |   |          |
|-----------------------------|-------|--|-------|---|----------|
| <b>Current Price:</b>       | \$167 | <b>5 Year CAGR Estimate:</b>               | 3.1%  | <b>Market Cap:</b>                        | \$68 B   |
| <b>Fair Value Price:</b>    | \$127 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b>      | 06/02/23 |
| <b>% Fair Value:</b>        | 131%  | <b>5 Year Valuation Multiple Estimate:</b> | -5.3% | <b>Dividend Payment Date<sup>1</sup>:</b> | 06/19/23 |
| <b>Dividend Yield:</b>      | 1.7%  | <b>5 Year Price Target</b>                 | \$178 | <b>Years Of Dividend Growth:</b>          | 20       |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                            | Hold     |

## 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 \$68 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.

On February 6<sup>th</sup>, 2023, Waste Management raised its dividend to \$2.80 annually, which marks its 20<sup>th</sup> consecutive annual increase.

On April 26<sup>th</sup>, 2023, Waste Management reported first quarter 2023 results for the period ending March 31<sup>st</sup>, 2023. For the quarter, the company generated revenue of \$4.9 billion, a 5.0% increase compared to Q1 2022. Adjusted net income equaled \$535 million or \$1.31 per share compared to \$540 million or \$1.29 per share in Q1 2022. Total company volumes rose by 1.2% in Q1 compared to an increase of 3.6% in the same prior year period.

During the quarter, Waste Management repurchased \$350 million of common stock. The company also returned \$289 million to shareholders in the form of cash dividends.

Waste Management reaffirmed 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          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.15 | \$2.48 | \$2.53 | \$2.91 | \$3.22 | \$4.20 | \$4.40 | \$4.03 | \$4.84 | \$5.59 | <b>\$6.05</b> | <b>\$8.49</b> |
| <b>DPS</b>                | \$1.46 | \$1.50 | \$1.54 | \$1.64 | \$1.70 | \$1.86 | \$2.05 | \$2.18 | \$2.30 | \$2.60 | <b>\$2.80</b> | <b>\$3.57</b> |
| <b>Shares<sup>2</sup></b> | 464    | 459    | 447    | 439    | 433    | 424    | 428    | 425    | 423    | 415    | <b>406.0</b>  | <b>375.0</b>  |

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

<sup>1</sup> Estimate

<sup>2</sup> In millions.

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volumes, improves automation, and repurchases shares. We are forecasting 7% annual earnings growth over the next five years, implying the expectation for \$8.49 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 | 27.6 | 21.0 |
| Avg. Yld. | 3.60% | 3.30% | 3.00% | 2.60% | 2.30% | 2.10% | 1.90% | 2.00% | 1.70% | 1.5% | 1.7% | 2.0% |

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 27.6 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%  | 46%  | 42%  |

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.

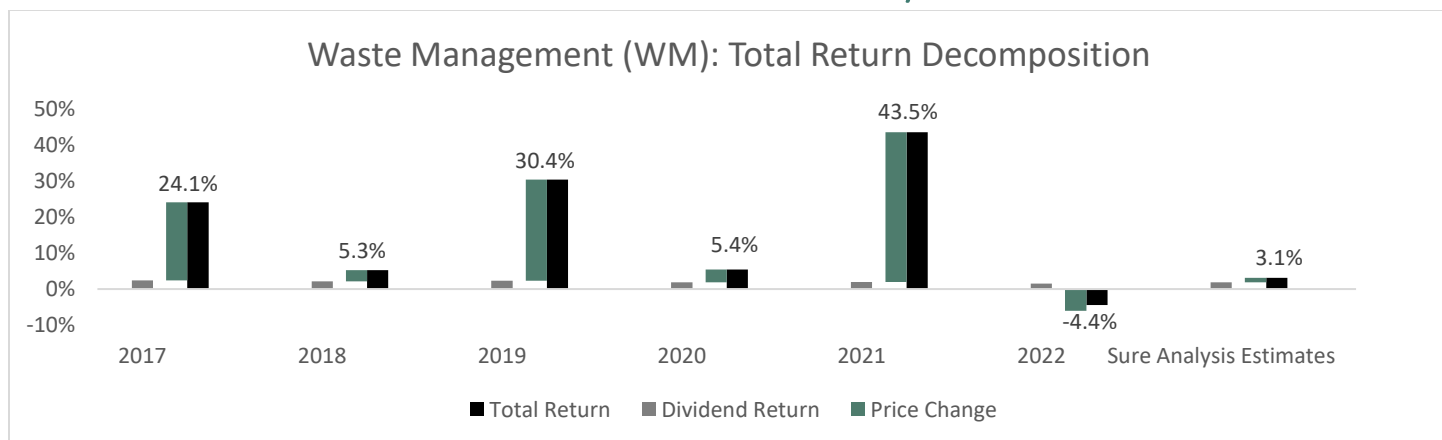
The company should also perform reasonably well in the next recession, as people still require waste disposal services in good times or bad. During the last recession, Waste Management posted earnings-per-share of \$2.19, \$2.00, \$2.10, and \$2.14 during the 2008 through 2011 stretch. Moreover, the 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 \$257 million in cash, \$3.4 billion in current assets and \$31.3 billion in total assets against \$3.9 billion in current liabilities and \$24.5 billion in total liabilities. Long-term debt stood at \$15.0 billion.

## Final Thoughts & Recommendation

Shares are up 6% 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 3.1% total return proposition, as our forecast of 7.0% annual growth and the 1.7% dividend yield could be offset by a valuation headwind. Shares earn a hold 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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