



Ecolab Inc. (ECL)

Updated February 19th 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$215	5 Year CAGR Estimate:	2.2%	Market Cap:	\$61.4 B
Fair Value Price:	\$128	5 Year Growth Estimate:	12.0%	Ex-Dividend Date¹:	3/18/2024
% Fair Value:	168%	5 Year Valuation Multiple Estimate:	-9.9%	Dividend Payment Date:	4/15/2024
Dividend Yield:	1.1%	5 Year Price Target	\$226	Years Of Dividend Growth:	32
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Ecolab Inc. is the global leader in water, hygiene, and energy technologies and services, with presence in more than 170 countries. 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 \$61.4 billion with annual revenue of \$15 billion. With 32 years of consecutive dividend increases, Ecolab is a member of the Dividend Aristocrats Index.

In mid-February, Ecolab reported (2/13/24) financial results for the fourth quarter of fiscal 2023. Organic sales grew 6% over the prior year's quarter, mostly thanks to double-digit growth in the Institutional segment and pest elimination. Thanks to strong price hikes and slightly lower costs of products, adjusted earnings-per-share grew 22%, from \$1.27 to \$1.55, and exceeded the analysts' consensus by \$0.01. Moreover, thanks to robust pricing and positive sales momentum, management provided guidance for earnings-per-share of \$6.10-\$6.50 in 2024, implying 17%-25% growth. It also expressed its confidence in expanding the operating margin from 16% to 20% in the upcoming years. Given the strong sales momentum, we expect earnings-per-share of about \$6.40.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.18	\$4.37	\$4.37	\$4.69	\$5.25	\$5.82	\$4.02	\$4.69	\$4.49	\$5.21	\$6.40	\$11.28
DPS	\$1.16	\$1.34	\$1.42	\$1.52	\$1.64	\$1.84	\$1.88	\$1.92	\$2.06	\$2.16	\$2.28	\$3.20
Shares²	299.9	296.0	291.8	293.6	292.2	292.6	288.7	289.5	285.8	287.1	285.0	280.0

Ecolab has significantly grown its earnings-per-share in the last decade, apart from the flat year in 2016, 2020 due to the pandemic and 2022 due to high inflation. This consistent growth record proves the strength of the business model and execution and reveals that the company is on a reliable growth trajectory. Ecolab grew its earnings-per-share by 10.9% per year during 2011-2019. It incurred a decline in 2020 due to the pandemic and in 2022 due to high inflation. We view these headwinds as temporary and expect 12% average annual growth of earnings-per-share 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	26.0	25.9	26.3	27.5	27.6	31.8	49.2	46.7	36.9	33.1	33.6	20.0
Avg. Yld.	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	0.9%	1.2%	1.3%	1.1%	1.4%

¹ Estimated date.

² In millions.

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Ecolab is trading at a price-to-earnings ratio of 33.6, which is a markedly rich valuation level. Although the stock has traded at an average price-to-earnings ratio of 33.1 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 -9.9% headwind to the annualized returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27.8%	30.5%	32.5%	32.4%	31.2%	31.6%	46.8%	40.9%	45.9%	41.5%	35.6%	28.4%

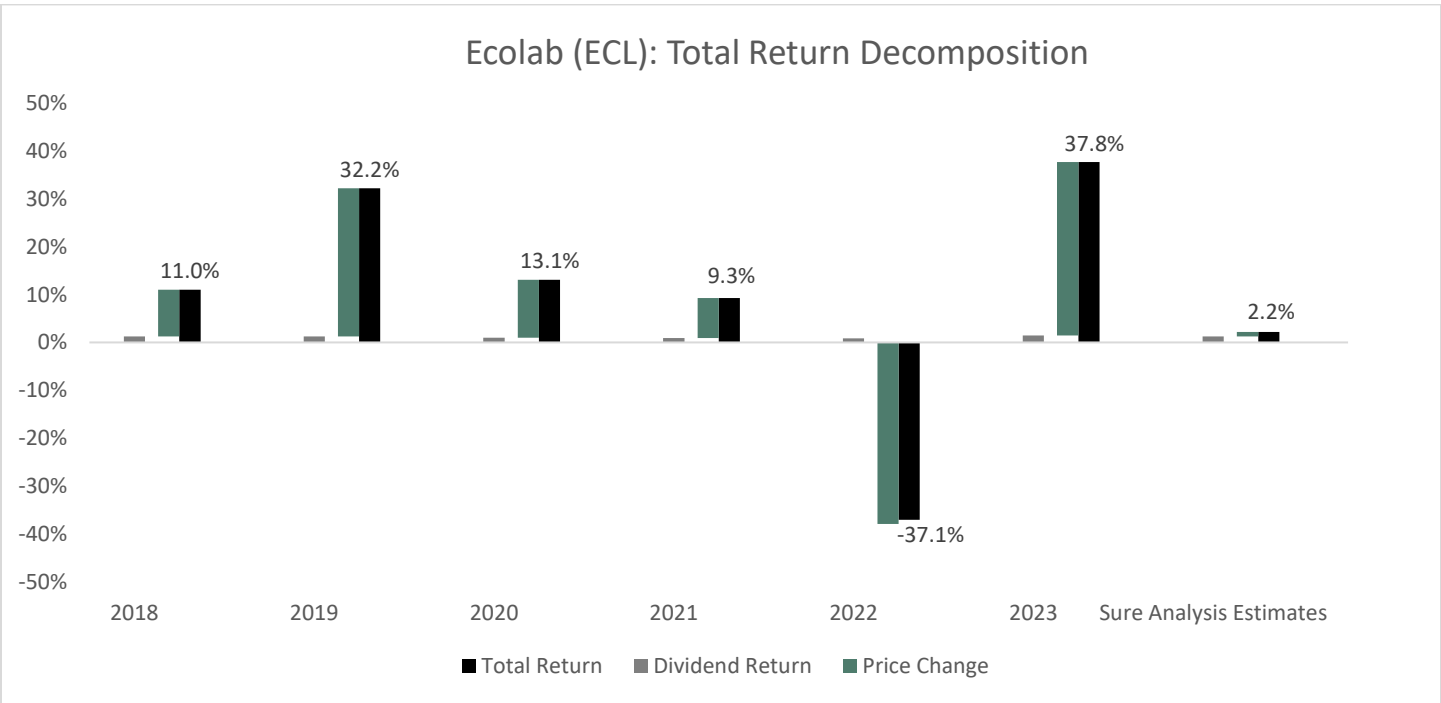
Thanks to its strong business performance and its relatively low shareholder distributions, Ecolab has a remarkably strong balance sheet, and its interest expense consumes just 14% of its operating income.

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 stock has rallied 33% in 12 months and thus it has become richly valued again, after an interval of a few quarters. Ecolab could offer a 2.2% average annual return over the next five years thanks to 12.0% earnings growth and its 1.1% dividend, partly offset by a -9.9% annualized valuation drag. We rate the stock as a sell and note that the market has already priced a significant portion of the future growth of Ecolab. The stock is likely to remain richly valued as long as the company thrives but the stock will have significant downside risk in the event of an unforeseen headwind, just like when the stock plunged during the pandemic and the surge of inflation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	14,281	13,545	13,152	13,836	12,222	12,562	11,790	12,733	14,188	15,320
Gross Profit	6,601	6,322	5,618	5,772	5,347	5,516	4,884	5,117	5,357	6,165
Gross Margin	46.2%	46.7%	42.7%	41.7%	43.7%	43.9%	41.4%	40.2%	37.8%	40.2%
SG&A Exp.	4,578	4,346	3,708	3,825	3,506	3,551	3,309	3,416	3,654	4,062
D&A Exp.	872	860	851	893	730	775	813	843	939	---
Operating Profit	2,024	1,976	1,910	1,946	1,841	1,965	1,575	1,701	1,703	2,104
Operating Margin	14.2%	14.6%	14.5%	14.1%	15.1%	15.6%	13.4%	13.4%	12.0%	13.7%
Net Profit	1,203	1,002	1,229	1,505	1,429	1,559	(1,205)	1,130	1,092	1,372
Net Margin	8.4%	7.4%	9.3%	10.9%	11.7%	12.4%	-10.2%	8.9%	7.7%	9.0%
Free Cash Flow	1,022	1,185	1,183	1,223	1,499	1,689	1,371	1,419	1,076	---
Income Tax	476	301	403	244	321	289	177	270	235	363

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19,427	18,642	18,330	19,964	20,075	20,869	18,126	21,206	21,464	21,847
Cash & Equivalents	210	93	327	211	115	119	1,260	360	599	920
Accounts Receivable	2,627	2,390	2,341	2,571	2,663	2,382	2,274	2,478	2,698	2,834
Inventories	1,467	1,388	1,319	1,447	1,546	1,082	1,285	1,492	1,793	1,497
Goodwill & Int. Ass.	11,174	10,600	10,201	11,185	10,876	8,497	8,984	12,288	11,693	11,642
Total Liabilities	12,045	11,661	11,359	12,310	12,021	12,143	11,925	13,953	14,206	13,774
Accounts Payable	1,162	1,050	983	1,177	1,256	1,075	1,161	1,384	1,728	1,566
Long-Term Debt	6,548	6,466	6,687	7,323	7,045	6,354	6,687	8,758	8,580	8,182
Shareholder's Equity	7,316	6,910	6,901	7,584	8,003	8,685	6,167	7,224	7,236	8,045
D/E Ratio	0.90	0.94	0.97	0.97	0.88	0.73	1.08	1.21	1.19	1.02

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.2%	5.3%	6.6%	7.9%	7.1%	7.6%	-6.2%	5.7%	5.1%	6.3%
Return on Equity	16.4%	14.1%	17.8%	20.8%	18.3%	18.7%	-16.2%	16.9%	15.1%	17.9%
ROIC	8.5%	7.3%	9.1%	10.5%	9.5%	10.3%	-8.6%	7.8%	6.9%	8.6%
Shares Out.	299.9	296.0	291.8	293.6	292.2	292.6	288.7	289.5	286.6	286.5
Revenue/Share	46.68	44.94	44.33	47.06	41.74	42.95	40.61	44.04	49.50	53.47
FCF/Share	3.34	3.93	3.99	4.16	5.12	5.78	4.72	4.91	3.75	---

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

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