Republic Services Inc. (RSG)

Updated March 1st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$183	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$57.6 B
Fair Value Price:	$149	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	04/01/2024
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date:**	04/15/2024
Dividend Yield:	1.2%	**5 Year Price Target**	$219	**Years Of Dividend Growth:**	19
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**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 19 years, since the first one was declared in 2004. The company generates around $15.0 billion in annual revenues and is based in Phoenix, Arizona.

On February 27th, 2024, Republic Services posted its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, adjusted EPS was $1.41, 24.8% higher than Q4-2022, while revenues grew 8.6% year-over-year to $3.83 billion. Revenue growth was driven by organic growth of 5.7% and a 2.9% contribution from acquisitions. For the year, adjusted EPS came in at $5.61, 13.8% up compared to fiscal 2022. The company repurchased $261.8 million worth of stock during fiscal 2023, which boosted its per-share growth figures.

At the end of the year, the remaining authorized purchase capacity under the company's October 2023 repurchase program was $3.0 billion.

For fiscal 2024, management expects revenue to be in the range of $16.1 billion to $16.2 billion and adjusted EPS to be in the range of $5.94 to $6.00. We have utilized the midpoint of this range in our estimates. Management also expects adjusted free cash flow to be in the range of $2.10 billion to $2.15 billion.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.54	$2.14	$1.79	$3.79	$3.17	$3.34	$3.56	$4.17	$4.93	$5.61	***$5.97***	***$8.77***
DPS	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	1.66	1.77	1.91	2.06	***$2.14***	***$2.93***
Shares[1]	357	350	343	337	327	321	319	319	317	317	***317***	***280***

Republic Services' EPS CAGR has been around 15.4% over the past decade, while DPS CAGR has been about 7.4% 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 $203.5 million and $261.8 million worth of its stock during 2022 and 2023, respectively. The company's current repurchase program authorization stands at $3.0 billion. It represents around 5.2% 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.

Over the years, 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 2029, though we remain prudent. We also retain our DPS

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.1	21.2	25.0	27.1	16.6	26.8	30.2	28.7	26.6	25.0	***30.7***	***25.0***
Avg. Yld.	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.4%	1.5%	1.5%	***1.2%***	***1.3%***

During the last decade, investors have shown a growing appreciation for the steady and dependable cash flows of Republic Services. This has resulted in a rather elevated multiple in recent years. Today, Republic Services' valuation is hovering at a somewhat pricy P/E of 30.7, notably higher than its historical average. We believe that a lower P/E of around 25 is a more suitable one, especially given the current interest rates environment. Hence, shares may be subject to valuation headwinds. Presently, Republic Services is providing a low yield of only 1.2%, and we predict that the yield will continue to remain near this level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	70%	54%	69%	35%	45%	47%	47%	42%	39%	37%	***36%***	***38%***

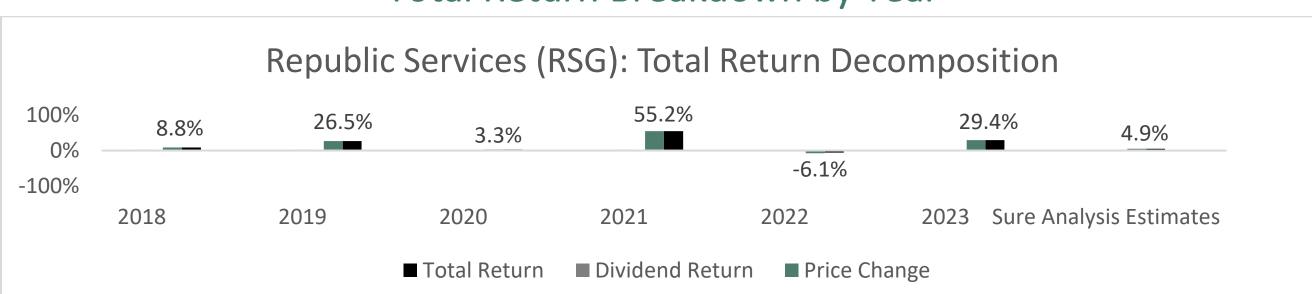
The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases 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 36% 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 4.9% through 2029, which we expect to be powered by earnings growth of 8% and a starting dividend yield of 1.2%, offset by the possibility for a 4.0% annual valuation headwind. The stock earns 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	$8,417	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299	$10,150	$11,300	13,510
Gross Profit	$3,183	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001	$4,053	$4,557	5,306
Gross Margin	37.8%	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%	39.9%	40.3%	39.3%
SG&A Exp.	$995	$898	$965	$955	$1,059	$1,013	$1,042	$1,060	$1,176	1,336
Operating Profit	$1,176	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803	$1,807	$2,093	2,489
Operating Margin	14.0%	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%	17.8%	18.5%	18.4%
Net Profit	$589	$548	$750	$613	$1,278	$1,037	$1,073	$967	$1,290	1,488
Net Margin	7.0%	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%	9.5%	11.4%	11.0%
Free Cash Flow	$667	$667	$734	$920	$921	$1,171	$1,145	$1,277	$1,470	1,736
Income Tax	$262	$337	$446	$353	$3	$283	$222	$173	$283	344

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	19949	20094	20536	20630	21147	21617	22684	23430	$24,960	29,050
Cash & Equivalents	$213	$75	$32	$68	$83	$71	$47	$38	$29	143
Accounts Receivable	$891	$930	$963	$995	$1,106	$1,103	$1,126	$1,091	$1,271	1,677
Inventories	$38	$36	$39	$44	$51	$53	$57	$59	$72	97
Goodwill & Int. Ass.	11040	11130	11392	11346	11457	11507	11767	12220	$13,090	14,800
Total Liabilities	12043	12346	12759	12936	13186	13688	14563	14950	$15,980	19,370
Accounts Payable	$511	$527	$577	$554	$598	$762	$778	$779	$910	1,222
Long-Term Debt	$7,018	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689	$8,934	$9,554	11,790
Shareholder's Equity	$7,904	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118	$8,484	$8,979	9,686
LTD/E Ratio	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.0%	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%	4.2%	5.3%	5.5%
Return on Equity	7.5%	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%	11.7%	14.8%	15.9%
ROIC	4.0%	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%	5.7%	7.2%	7.4%
Shares Out.	363	358	351	344	339	328	322	320	319.4	316.5
Revenue/Share	$23.16	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99	$31.75	$35.36	42.69
FCF/Share	$1.84	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56	$3.99	$4.60	5.48

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