Republic Services Inc. (RSG)

Updated October 30th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$201	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$63.2 B
Fair Value Price:	$163	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/02/2025
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	01/15/2025
Dividend Yield:	1.2%	**5 Year Price Target**	$263	**Years Of Dividend Growth:**	20
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 20 years, since the first one was declared in 2004. The company generates around $15 billion in annual revenues and is based in Phoenix, Arizona.

On October 29th, 2024, Republic Services released its Q3 results for the period ending September 30th, 2024. For the quarter, adjusted EPS was $1.81, 17.5% higher than Q3-2023, while revenues grew 6.5% year-over-year to $4.08 billion. Revenue growth was driven by organic growth of 4.2% and a 2.3% contribution from acquisitions. The company bought back 0.8 million of its shares for $161.9 million during the quarter, which also contributed to EPS growth. At the end of the year, the remaining authorized purchase capacity under the company's October 2023 repurchase program was $2.7 billion.

For fiscal 2024, management expects revenue to be in the low-end of the $16.075 billion to $16.125 billion range and adjusted EBITDA to be in the higher-end of the $4.900 billion to $4.925 billion range. Based on these numbers, we think the company will achieve adjusted EPS of about $6.27.

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	***$6.27***	***$10.10***
DPS	$1.08	$1.16	$1.24	$1.33	$1.44	$1.56	1.66	1.77	1.91	2.06	***$2.32***	***$3.18***
Shares[1]	357	350	343	337	327	321	319	319	317	317	***314***	***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 have set our EPS growth estimate to 10%, to be sustained by 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 current repurchase program authorization stands at $2.8 billion. It represents around 4.6% 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 growth estimates at 6.5%, which while below the most recent dividend increase of 8.4%, and should be well-within what the company can afford.

[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.

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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	***32.1***	***26.0***
Avg. Yld.	2.7%	2.8%	3.0%	2.0%	2.0%	1.8%	1.8%	1.4%	1.5%	1.5%	***1.2%***	***1.2%***

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 32.1, notably higher than its historical average. We believe that a lower P/E of around 26 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%	***37%***	***38%***

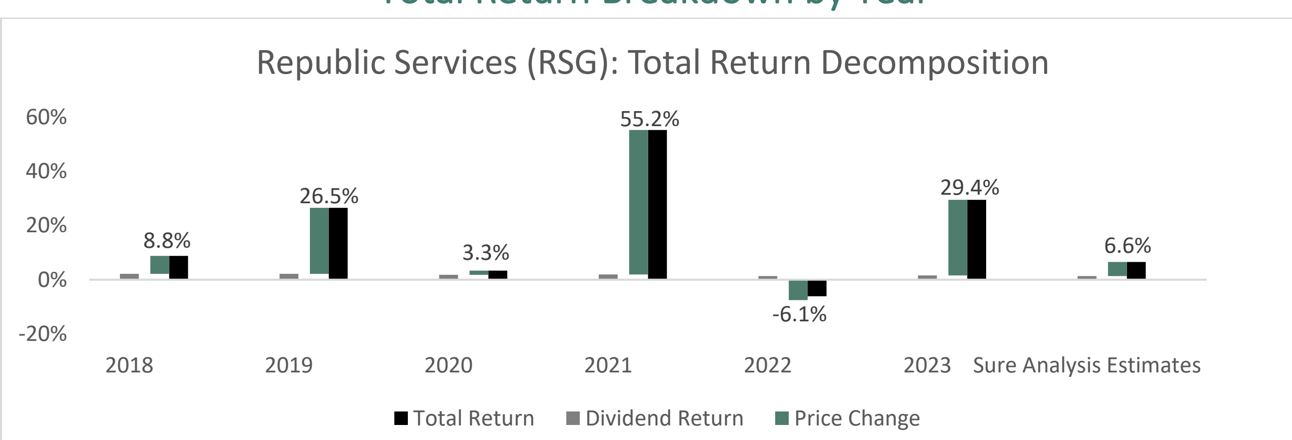
The company's large market share is clear evidence of its competitive advantage. With the three largest operators having captured more than 75% of the industry and continuous consolidation, entry into the market by new competitors is almost impossible. The long-term contracts tied to annual rate increases 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 6.6% through 2029, which we expect to be powered by earnings growth of 10% and a starting dividend yield of 1.2%, offset by the possibility for a 4.1% annual valuation headwind. The stock earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	$8,803	$9,115	$9,388	$10,042	$10,041	$10,299	$10,150	$11,300	13,510	14,960
Gross Profit	$3,160	$3,596	$3,624	$3,827	$3,891	$4,001	$4,053	$4,557	5,306	6,022
Gross Margin	35.9%	39.5%	38.6%	38.1%	38.8%	38.8%	39.9%	40.3%	39.3%	40.3%
SG&A Exp.	$898	$965	$955	$1,059	$1,013	$1,042	$1,060	$1,176	1,336	1,522
Operating Profit	$1,217	$1,519	$1,578	$1,652	$1,729	$1,803	$1,807	$2,093	2,489	2,848
Operating Margin	13.8%	16.7%	16.8%	16.5%	17.2%	17.5%	17.8%	18.5%	18.4%	19.0%
Net Profit	$548	$750	$613	$1,278	$1,037	$1,073	$967	$1,290	1,488	1,731
Net Margin	6.2%	8.2%	6.5%	12.7%	10.3%	10.4%	9.5%	11.4%	11.0%	11.6%
Free Cash Flow	$667	$734	$920	$921	$1,171	$1,145	$1,277	$1,470	1,736	1,987
Income Tax	$337	$446	$353	$3	$283	$222	$173	$283	344	460

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20094	20536	20630	21147	21617	22684	23430	$24,960	29,050	31,411
Cash & Equivalents	$75	$32	$68	$83	$71	$47	$38	$29	143	140
Accounts Receivable	$930	$963	$995	$1,106	$1,103	$1,126	$1,091	$1,271	1,677	1,768
Inventories	$36	$39	$44	$51	$53	$57	$59	$72	97	97
Goodwill & Int. Ass.	11130	11392	11346	11457	11507	11767	12220	$13,090	14,800	16,330
Total Liabilities	12346	12759	12936	13186	13688	14563	14950	$15,980	19,370	20,870
Accounts Payable	$527	$577	$554	$598	$762	$778	$779	$910	1,222	1,412
Long-Term Debt	$7,061	$7,533	$7,659	$8,187	$8,338	$8,689	$8,934	$9,554	11,790	12,820
Shareholder’s Equity	$7,745	$7,774	$7,691	$7,959	$7,927	$8,118	$8,484	$8,979	9,686	10,540
LTD/E Ratio	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	3.7%	3.0%	6.1%	4.8%	4.8%	4.2%	5.3%	5.5%	5.7%
Return on Equity	7.0%	9.7%	7.9%	16.3%	13.1%	13.4%	11.7%	14.8%	15.9%	17.1%
ROIC	3.7%	5.0%	4.0%	8.1%	6.4%	6.5%	5.7%	7.2%	7.4%	7.7%
Shares Out.	358	351	344	339	328	322	320	319.4	316.5	316.7
Revenue/Share	$24.58	$25.94	$27.26	$29.62	$30.58	$31.99	$31.75	$35.36	42.69	47.25
FCF/Share	$1.86	$2.09	$2.67	$2.72	$3.57	$3.56	$3.99	$4.60	5.48	6.27

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