

Ecolab Inc

Robust earnings growth from pricing and water mgmt; Upgrade to Neutral

Rating Change: NEUTRAL | PO: 216.00 USD | Price: 198.92 USD

Water scarcity and treatment will be growth drivers

With water demand up 40% over the past 40 years and estimated to go up another 25% by 2050, and supply more than halved since 1970 (see Exhibit 1), the global water scarcity issue is increasingly severe ([See Thematic Investing primer on Water here](#)). We expect ECL's Water business (~20% of total sales) to post steady earnings growth, as there is significant demand from companies striving to reduce water usage. Additionally, we see increasing regulatory and legal scrutiny on contaminants discharged in wastewater as a positive for ECL as it will require more treatment and monitoring. For example, the EPA has been active in setting a variety of new rules regarding PFAS drinking water standards with a focus on industrial discharges.

Expecting continued double-digit earnings growth

ECL has been able to drive double-digit earnings growth over the past few quarters due to aggressive pricing (see Exhibit 2), business wins, cost deflation which started in Q3, and a more recent focus on productivity (SG&A/sales). The pricing power has been strong across all businesses, driven particularly by Global Industrial and Global Institutional businesses. We expect cost deflation and pricing growth to continue in 2024 (LSD for both) which should help continue this trend even in the face of only modest volume growth due to an uncertain macro. Our expectation of double-digit earnings growth has risk in a cost environment that may turn to reinflation later in 2024/2025. Our 2024E EPS increases to \$6.15 from \$6.00, driven largely from pricing.

Service model has many benefits; Upgrade to Neutral

While ECL's end markets are vast (from restaurants and hotels to hospitals and schools), the company's business model is fundamentally service-oriented, which leads to significant pricing power, high customer loyalty, and strong margins. Thus, we believe there is merit in valuing the stock from both a chemical and business services standpoint. Our PO increases to \$216 (\$185 prior), based on the average of a DCF-derived present value (8.7% WACC vs 8.5% prior, 4.0% term growth), and a higher P/E of 33.0x (28.0x prior) as applied to 2024E EPS, now derived from an average of specialty chems (SHW, LIN; 26x multiple) and business services (ROL, CTAS; 40x multiple). We upgrade to Neutral from U/P given near-term earnings and robust longer-term drivers.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.69	4.49	5.23	6.15	7.22
GAAP EPS	3.91	3.81	4.86	6.10	7.16
EPS Change (YoY)	12.7%	-4.3%	16.5%	17.6%	17.4%
Consensus EPS (Bloomberg)			5.20	6.13	7.02
DPS	1.96	2.10	2.15	2.23	2.34
Valuation (Dec)					
P/E	42.4x	44.3x	38.0x	32.3x	27.6x
GAAP P/E	50.9x	52.2x	40.9x	32.6x	27.8x
Dividend Yield	1.0%	1.1%	1.1%	1.1%	1.2%
EV / EBITDA*	24.0x	23.3x	20.8x	18.9x	17.5x
Free Cash Flow Yield*	2.5%	1.9%	2.9%	3.5%	3.9%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 16 January 2024 06:01AM EST

16 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-3-7	B-2-7
Inv. Rating	UNDERPERFORM	NEUTRAL
Price Obj.	185.00	216.00
2024E Rev (m)	16,187.7	16,340.8
2025E Rev (m)	17,126.1	17,287.8
2024E EPS	6.00	6.15
2025E EPS	6.99	7.22
2023E DPS	2.12	2.15

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Stock Data

Price	198.92 USD
Price Objective	216.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-2-7
52-Week Range	143.91 USD - 201.62 USD
Mrkt Val (mn) / Shares Out (mn)	56,720 USD / 285.1
Free Float	88.9%
Average Daily Value (mn)	208.81 USD
BofA Ticker / Exchange	ECL / NYS
Bloomberg / Reuters	ECL US / ECLN
ROE (2023E)	5,171.3%
Net Dbt to Eqty (Dec-2022A)	110.0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Ecolab Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	7.8%	7.2%	8.9%	10.8%	12.0%
Return on Equity	4,240.4%	5,008.7%	5,171.3%	3,467.3%	2,441.6%
Operating Margin	12.6%	11.0%	13.1%	15.2%	15.9%
Free Cash Flow	1,419	1,076	1,618	1,995	2,214

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.4x	1.6x	1.6x	1.5x
Asset Replacement Ratio	0.8x	0.8x	0.7x	0.8x	0.8x
Tax Rate	19.1%	17.5%	19.4%	20.2%	20.2%
Net Debt-to-Equity Ratio	115.8%	110.0%	84.1%	79.4%	73.6%
Interest Cover	8.6x	6.4x	6.6x	8.4x	11.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	12,733	14,188	15,335	16,341	17,288
% Change	3.1%	11.4%	8.1%	6.6%	5.8%
Gross Profit	5,211	5,427	6,230	6,804	7,284
% Change	2.2%	4.1%	14.8%	9.2%	7.0%
EBITDA	2,703	2,787	3,126	3,440	3,715
% Change	8.4%	3.1%	12.2%	10.1%	8.0%
Net Interest & Other Income	(184)	(219)	(250)	(297)	(236)
Net Income (Adjusted)	1,355	1,287	1,496	1,735	1,993
% Change	12.1%	-5.0%	16.2%	16.0%	14.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,130	1,092	1,391	1,721	1,976
Depreciation & Amortization	843	939	939	949	961
Change in Working Capital	1	(277)	(72)	(38)	(83)
Deferred Taxation Charge	(1)	(143)	(46)	0	0
Other Adjustments, Net	89	177	106	118	133
Capital Expenditure	(643)	(713)	(701)	(756)	(773)
Free Cash Flow	1,419	1,076	1,618	1,995	2,214
% Change	13.3%	-24.2%	50.4%	23.3%	11.0%
Share / Issue Repurchase	(107)	(518)	(151)	(1,150)	(1,300)
Cost of Dividends Paid	(566)	(603)	(614)	(628)	(645)
Change in Debt	2,151	90	(501)	(322)	(321)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	360	599	986	934	938
Trade Receivables	2,478	2,698	2,876	3,065	3,219
Other Current Assets	1,849	2,198	1,993	2,096	2,169
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	16,519	15,970	16,250	16,056	15,868
Total Assets	21,206	21,464	22,106	22,151	22,194
Short-Term Debt	411	505	505	505	505
Other Current Liabilities	3,142	3,705	3,597	3,820	3,983
Long-Term Debt	8,347	8,075	7,574	7,253	6,932
Other Non-Current Liabilities	2,053	1,920	1,960	1,975	1,943
Total Liabilities	13,953	14,206	13,637	13,553	13,362
Total Equity	7,253	7,259	8,431	8,598	8,832
Total Equity & Liabilities	21,206	21,464	22,068	22,151	22,194

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Chemicals

Company Description

Ecolab (ECL) is the global leader in water, hygiene and infection prevention solutions and services. The company provides chemicals and onsite service for customers in the food, health care, hospitality and industrial markets. In 2022, Ecolab generated \$14.2bn in sales while serving nearly 3mn customer locations in more than 170 countries.

Investment Rationale

Ecolab has a strong franchise with durable competitive advantages. While the stock trades nearly 7x turns above other specialty chemical companies, we view its service model as favorable, and see upside potential in its Water business due to scarcity and increasing regulation. Neutral

Stock Data

Average Daily Volume 1,049,722

Quarterly Earnings Estimates

	2022	2023
Q1	0.82A	0.88A
Q2	1.10A	1.24A
Q3	1.30A	1.54A
Q4	1.27A	1.57E

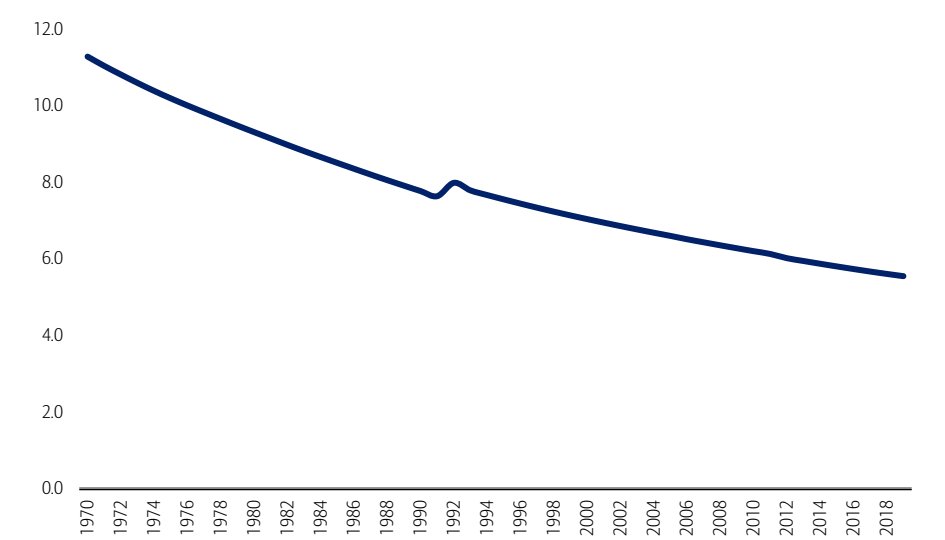
Glossary

PFAS = Per- and Polyfluoroalkyl Substances

- EPA = Environmental Protection Agency
- LIN = Linde
- SHW = Sherwin-Williams
- ROL = Rollins Inc.
- CTAS = Cintas
- U/P = Underperform

Exhibit 1: Global Renewable Internal Freshwater Resources per Capita, 1970-2019 (liters per capita)

Water supply has halved since 1970, declining ~1.4% p.a.



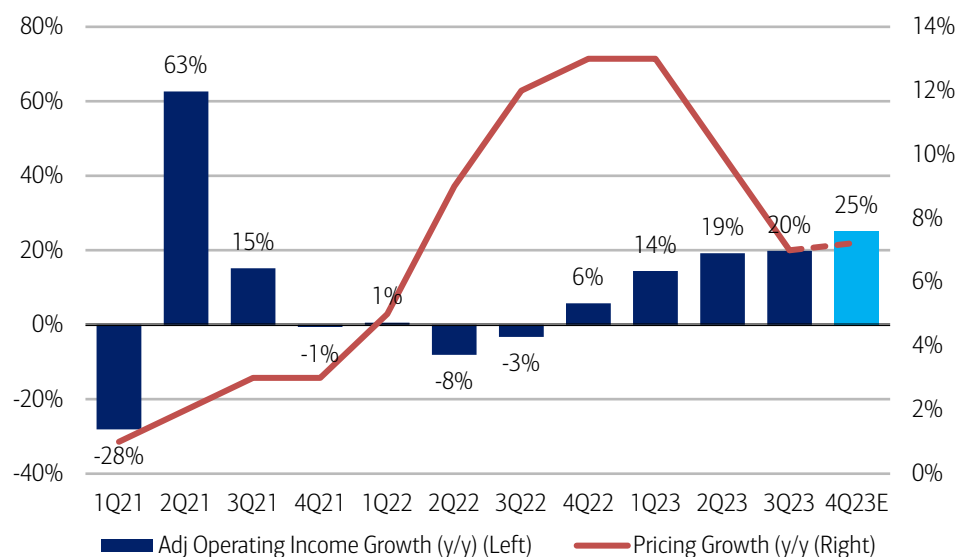
Source: World Bank

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Exhibit 2: Adj Operating Income Growth & Pricing Growth

Operating Income growth has been in the double digits for the past three quarters driven by strong pricing across all segments



Source: Company financials, BofA Global Research estimates

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Exhibit 3: Ecolab Income Statement Summary

We are raising our 2024 Adj EPS estimate to \$6.15 from \$6.10

	2022	1Q'23	2Q'23	3Q'23	4Q'23E	2023E	1Q'24E	2Q'24E	3Q'24E	4Q'24E	2024E	2025E	2026E
Revenue	14,188	3,572	3,852	3,958	3,953	15,335	3,768	4,083	4,239	4,252	16,341	17,288	18,255
Cost of sales	8,761	2,202	2,327	2,325	2,251	9,105	2,318	2,408	2,407	2,405	9,536	10,004	10,486
Gross profit	5,427	1,370	1,525	1,634	1,702	6,230	1,450	1,675	1,832	1,847	6,804	7,284	7,769
Gross Margin	38.2%	38.3%	39.6%	41.3%	43.0%	40.6%	38.5%	41.0%	43.2%	43.4%	41.6%	42.1%	42.6%
SG&A	3,654	990	1,012	1,025	1,048	4,074	995	1,078	1,119	1,122	4,314	4,529	4,746
SG&A/Sales	25.8%	27.7%	26.3%	25.9%	26.5%	26.6%	26.4%	26.4%	26.4%	26.4%	26.4%	26.2%	26.0%
Special charges (gains)	210	28	29	43	25	124	0	0	0	0	0	0	0
Total operating expenses	9,291	2,388	2,566	2,701	2,774	10,429	2,445	2,753	2,951	2,970	11,118	11,813	12,515
Operating income (GAAP)	1,563	352	485	566	604	2,006	456	597	713	725	2,491	2,754	3,023
Non-operating special charges (gains)	51	0	0	0	0	0	0	0	0	0	0	0	0
Other (income)/expense	(75)	(13)	(14)	(15)	(15)	(57)	0	0	0	0	0	0	0
Interest expense, net	244	74	78	74	80	306	74	74	74	74	297	236	228
Income before taxes	1,343	291	421	506	539	1,757	381	523	639	650	2,193	2,519	2,795
Provision for taxes	235	52	87	97	106	342	77	106	129	131	443	509	565
GAAP tax rate	17.5%	18.0%	20.6%	19.1%	19.6%	19.4%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%
Minority interest	17	5	5	5	9	24	5	7	9	9	29	34	37
Minority interest as % of after-tax income	1.6%	2.0%	1.5%	1.3%	2.0%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Net income, continuing operations	1,092	233	330	404	424	1,391	299	410	501	510	1,721	1,976	2,193
GAAP Diluted EPS	\$3.81	\$0.82	\$1.15	\$1.41	\$1.48	\$4.86	\$1.05	\$1.45	\$1.78	\$1.82	\$6.10	\$7.16	\$8.13
Basic shares outstanding	285	285	285	285	284	285	283	281	280	278	280	274	268
Diluted shares outstanding	287	286	286	287	286	286	284	283	281	280	282	276	270
Dividend per share	\$2.04	\$0.53	\$0.53	\$0.53	\$0.53	\$2.12	\$0.56	\$0.56	\$0.56	\$0.56	\$2.23	\$2.34	\$2.45
Adjusted earnings:													
Adjusted operating income	1,772.9	379.3	513.8	608.6	629.0	2,130.7	455.6	597.0	713.2	724.7	2,490.5	2,754.2	3,022.9
Adjusted EBITDA	2,786.7	626.7	757.6	852.5	889.0	3,125.8	688.2	830.6	947.2	974.0	3,440.0	3,715.4	3,982.4

Exhibit 3: Ecolab Income Statement Summary

We are raising our 2024 Adj EPS estimate to \$6.15 from \$6.10

	2022	1Q'23	2Q'23	3Q'23	4Q'23E	2023E	1Q'24E	2Q'24E	3Q'24E	4Q'24E	2024E	2025E	2026E
Pretax Income, ex 1-Time Items	1,604	318	450	549	564	1,881	381	523	639	650	2,193	2,519	2,795
Taxes, ex 1-Time Items	300	63	90	102	107	361	75	102	125	127	429	492	546
Adjusted Tax Rate (%)	18.7%	19.8%	19.9%	18.5%	19.0%	19.2%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%
Adjusted net income	1,287.2	250.5	355.8	441.9	447.8	1,496.0	301.7	413.6	505.5	514.4	1,735.3	1,992.6	2,211.4
Adjusted diluted EPS	\$4.49	\$0.88	\$1.24	\$1.54	\$1.57	\$5.23	\$1.06	\$1.46	\$1.80	\$1.84	\$6.15	\$7.22	\$8.19

Source: Company financials, BofA Global Research estimates

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Price objective basis & risk

Ecolab Inc (ECL)

Our \$216 price objective for Ecolab is based on an average of the DCF-derived present value utilizing a 8.7% WACC and a 4% terminal growth rate, and a valuation based on a P/E of 33.0x applied to our FY2024 EPS estimate.

Downside risks to our price objective are: 1) a weaker recovery in COVID-impacted end-markets and macro conditions, 2) sudden increases in commodity costs, 3) Institutional growth continuing to lag amid changing consumer preferences, and 4) merger and integration risks. Upside risks to our price objective are: 1) faster than expected recovery in COVID-19 impacted volumes, 2) better than expected market share gains, and 3) potentially accretive acquisitions.

Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
NEUTRAL				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
UNDERPERFORM				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

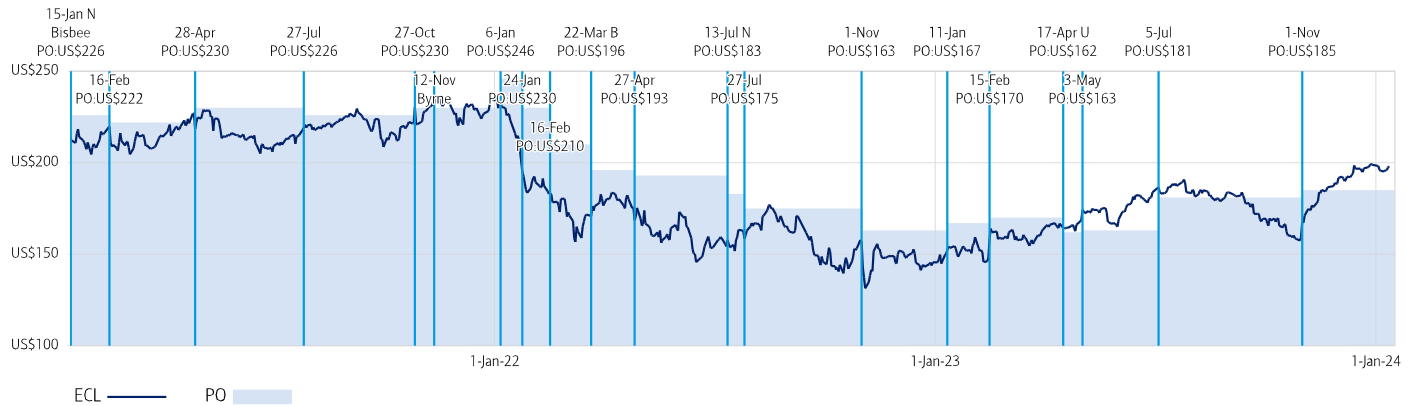
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Disclosures

Important Disclosures

Ecolab Inc (ECL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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