

GFL Environmental Inc

Solid Q4, guide in line: we see a balancing act as GFL reignites growth engine in '24

Reiterate Rating: NEUTRAL | PO: 38.50 USD | Price: 36.40 USD

Solid finish to a critical year....

GFL reported Q4 EBITDA of \$492mn, up 11.9% YoY, on a 3.4% sales gain. EBITDA was broadly in line with cons (\$490mn), supported by 200bp of margin expansion (solid waste +250bps) Takeaways: pricing was better (+7.9%) to offset weak volumes (-3.6%), cash from ops of \$401mn (flat YoY) & adj FCF of \$472mn (+89% YoY) came in line with guide (excl. \$145mn of growth investments, \$142mn cash taxed related to divestitures).

...with significant heavy lifting largely complete in 2023...

In our view, 2023 was a critical (and successful) year for GFL's story as a public entity: deployed \$890mn in 2023 (39 strategic acquisitions – more densifying via tuck-ins vs platform M&A), rationalize non-core assets (\$1.6bn of proceeds from divestitures), expanded EBITDA margin 120bps YoY, and de-levered balance sheet (4.1x vs 5.0x).

....2024 story shifts as GFL reignites growth engine

Key aspects of GFL's guidance (revenue \$8bn, EBITDA \$2.215bn, 100bps of margin expansion, baseline capex \$850-900mn, incremental growth capex \$250-300mn, \$600-650mn in M&A) broadly in line with expectations into results (cons EBITDA \$2.2bn). In our view, the shift by GFL from 'blocking & tackling' (i.e., divestitures, etc.) to reigniting growth (growth capex, M&A etc.) was well telegraphed and these sustainability projects are high returns (and consistent with peers). That said, we believe it is more of a balancing act for GFL given its leverage and seasonal FCF profile relative to peers.

GFL CEO attending BofA event next week – look for clues

BofA is hosting GFL at the Materials conference in Florida (Feb 29th), including Patrick Dovigi (Founder, CEO). We look forward to an update on the portfolio transformation (more to come post 2023?), GFL Infrastructure (see pure play comp re-ratings), price vs cost spread, visibility to FCF targets in out-years, narrowing gap vs peers, M&A runway.

Reiterate Neutral

We update our estimates post Q4 results. We raise our PO to C\$52/US\$38.5 (C\$46/US\$35) based on higher multiple given improving price vs cost spread and peers multiples have re-rated (12.5x 2024 EBITDA vs 11.5x prior). Reiterate Neutral rating as we see more balanced risk/reward given growth prospects albeit higher net leverage.

Estimates(Dec) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.72)	0.01	0.37	0.73	1.10
GAAP EPS	(1.07)	0.01	0.37	0.73	1.10
EPS Change (YoY)	60.7%	NM	NM	97.3%	50.7%
DPS	0.05	0.05	0.06	0.06	0.07
Common - Dual Listed EPS (C\$)	(0.72)	0.01	0.37	0.73	1.10
Common - Dual Listed DPS (C\$)	0.05	0.05	0.06	0.06	0.07
Valuation (Dec)					
P/E	NM	4,799.7x	132.9x	67.4x	44.7x
Dividend Yield	0.1%	0.1%	0.1%	0.1%	0.1%
EV / EBITDA*	15.7x	13.5x	12.2x	11.1x	10.2x
Free Cash Flow Yield*	-5.6%	-5.9%	-0.6%	2.3%	2.8%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 21 February 2024 05:00AM EST

21 February 2024

Equity

Key Changes

(C\$)	Previous	Current
Price Obj.	US\$35.00	US\$38.50
2024E Rev (m)	8,074.9	7,999.6
2025E Rev (m)	8,600.4	8,479.2
2026E Rev (m)	NA	8,924.8
2024E EBITDA (m)	2,215.2	2,214.8
2025E EBITDA (m)	2,429.7	2,429.6
2026E EBITDA (m)	NA	2,649.6

Michael Feniger
Research Analyst
BofAS
+1 646 855 1923
michael.feniger@bofa.com

Sherif El-Sabbahy
Research Analyst
BofAS
sherif.el-sabbahy@bofa.com

Nandita Nayar
Research Analyst
BofAS
nandita.nayar@bofa.com

Stock Data

Price (NYS / TOR)	36.40 USD / 49.26 CAD
Price Objective	38.50 USD / 52.00 CAD
Date Established	21-Feb-2024 / 21-Feb-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	26.87 USD - 39.06 USD
Market Value (mn)	13,080 USD
Free Float	72.2%
Average Daily Value	38.23 USD
Shares Outstanding (mn)	359.3 / 359.3
BofA Ticker / Exchange	GFL / NYS
BofA Ticker / Exchange	YGFL / TOR
Bloomberg / Reuters	GFL US / GFL.N
ROE (2024E)	1.7%
Net Dbt to Eqty (Dec-2023A)	117.8%
ESGMeter™	Medium

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Excl = excluding

iQprofileSM GFL Environmental Inc

iQmethodSM – Bus Performance*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	0.2%	0.9%	2.7%	3.1%	3.6%
Return on Equity	-4.5%	0.1%	1.7%	3.1%	4.2%
Operating Margin	0.9%	4.1%	8.2%	9.5%	10.8%
Free Cash Flow	(954)	(1,041)	(100)	400	500

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	12.3x	6.8x	4.9x
Asset Replacement Ratio	2.0x	2.0x	1.7x	1.3x	1.2x
Tax Rate	49.0%	83.2%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	152.0%	117.8%	108.1%	93.4%	79.4%
Interest Cover	0.1x	0.5x	1.4x	1.8x	2.3x

Income Statement Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,761	7,516	8,000	8,479	8,925
% Change	22.4%	11.2%	6.4%	6.0%	5.3%
Gross Profit	798	1,269	1,698	1,919	2,142
% Change	51.2%	59.2%	33.7%	13.0%	11.6%
EBITDA	1,721	2,004	2,215	2,430	2,650
% Change	17.6%	16.4%	10.5%	9.7%	9.1%
Net Interest & Other Income	(422)	(117)	(475)	(450)	(425)
Net Income (Adjusted)	(264)	4	136	268	404
% Change	60.0%	NM	NM	97.3%	50.7%

Free Cash Flow Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(183)	32	137	269	404
Depreciation & Amortization	1,009	1,004	1,072	1,136	1,200
Change in Working Capital	(86)	31	(835)	(887)	(948)
Deferred Taxation Charge	(196)	(252)	0	0	0
Other Adjustments, Net	552	165	1,301	1,315	1,325
Capital Expenditure	(2,051)	(2,021)	(1,775)	(1,433)	(1,482)
Free Cash Flow	-954	-1,041	-100	400	500
% Change	53.4%	-9.1%	90.4%	NM	25.0%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	752	(393)	0	0	0

Balance Sheet Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	82	136	15	392	867
Trade Receivables	1,118	1,080	1,366	1,835	2,795
Other Current Assets	183	269	175	186	196
Property, Plant & Equipment	6,540	6,981	7,059	6,855	6,637
Other Non-Current Assets	11,844	11,414	11,399	11,220	11,006
Total Assets	19,768	19,879	20,013	20,488	21,500
Short-Term Debt	18	10	10	10	10
Other Current Liabilities	2,674	1,801	1,158	751	772
Long-Term Debt	9,249	8,827	8,827	8,827	8,827
Other Non-Current Liabilities	966	959	959	959	959
Total Liabilities	13,724	12,493	11,850	11,443	11,464
Total Equity	6,044	7,386	8,164	9,045	10,036
Total Equity & Liabilities	19,768	19,879	20,013	20,488	21,500

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Industrial Machinery

Company Description

GFL is the fourth largest diversified environmental services company in North America that serves municipal, residential, commercial, and industrial customers. GFL is vertically integrated, owning 450+ post collection facilities, 160+ transfer stations, and 90+ landfills.

Investment Rationale

We have a positive long-term outlook for GFL Environmental given the stability of the solid waste industry, portfolio transformation, and M&A runway. Solid waste is a relatively defensive industry due to its diverse customer base, high degree of annuity-type revenue, essential service for the public health, and barriers to entry. That said, GFL's growth initiatives in 2024 are likely to weigh on FCF and de-leveraging prospects in the near-term.

Stock Data

Average Daily Volume	1,050,183
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	-0.66A	NAE
Q2	0.72A	NAE
Q3	0.05A	NAE
Q4	-0.17A	NAE

Key Changes

(C\$)	Previous	Current
Price Obj.	46.00	52.00
2024E EPS	0	0.37
2025E EPS	0.38	0.73
2026E EPS	NA	1.10

Price objective basis & risk

GFL Environmental Inc (GFL / YGFL)

Our 12-month price objective of C\$52 (USD \$38.5) is based on a target 2024E EV/EBITDA multiple of 12.5x, a discount to the public national waste operators due to higher leverage & more back end weighted FCF. We believe EV/EBITDA is the most comparable metric due to high debt levels. We rely on comparable company analysis with a group of publicly traded nonhazardous waste operators, all of which are larger and more liquid than GFL. While GFL's growth profile is significantly higher than the national players, the higher leverage ratio and M&A integration are risks.

Upside risks: 1) driving stronger top line growth than the national players over the next 2-3 years, 2) expanding EBITDA margins (ie, driving profitable growth), 3) organically de-leveraging its balance sheet over the cycle via free cash flow generation, 4) higher than expected synergies from acquisitions.

Downside risks: 1) More cyclical waste stream tied to construction, Industrial activity, new project development impact earnings more than expected, 2) struggle to generate free cash flow, limiting ability to de-lever balance sheet organically, 3) struggle to price the business above rising costs, 4) challenges with integrating acquisitions.

Analyst Certification

I, Michael Feniger, 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 - Machinery Coverage Cluster

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	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
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	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger

UNDERPERFORM

	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
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
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
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

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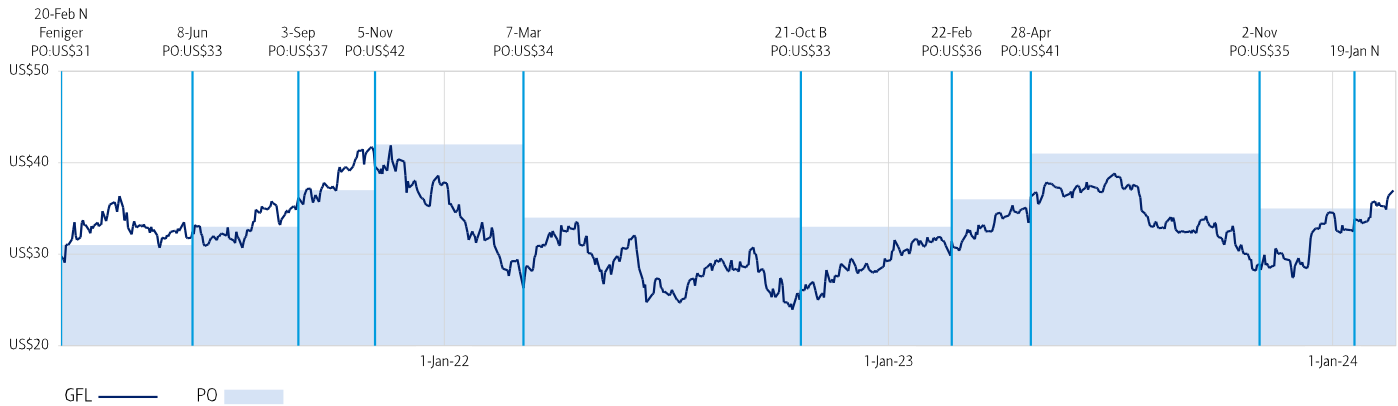
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Disclosures

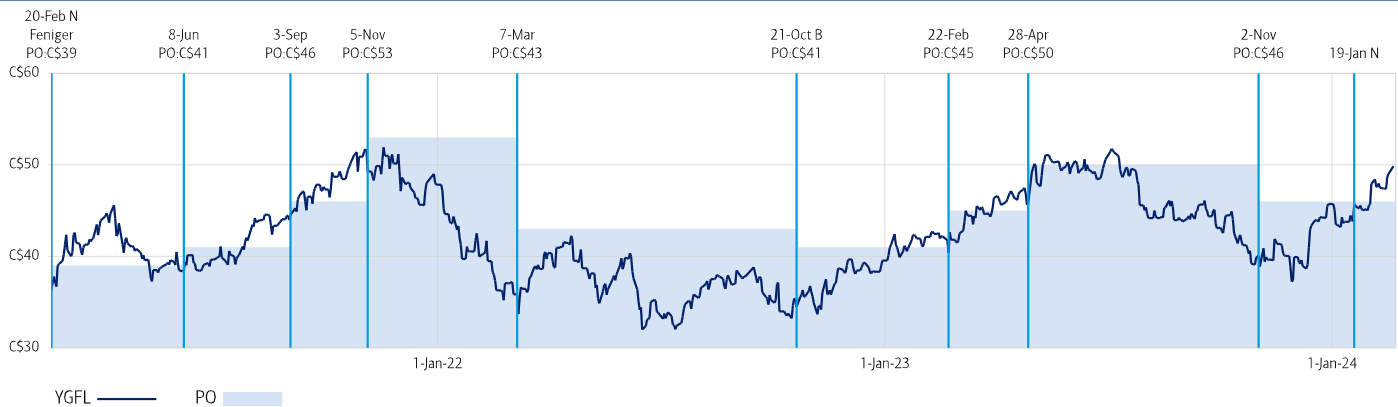
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GFL Environmental (GFL) Price Chart



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GFL Environmental (YGFL) Price Chart



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Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

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.

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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.

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