

Ecolab Inc

A strong moat to drive new business wins and pricing; reflected in valuation

Reiterate Rating: NEUTRAL | PO: 232.00 USD | Price: 221.18 USD

2024 guide well above consensus, with no macro recovery

On its 4Q call, Ecolab provided its 2024 EPS targeted range of \$6.10-6.50 vs consensus' \$6.14, which at the upper end represents 25% EPS growth, the highest earnings growth among our specialty chemical coverage (see Exhibit 1). While this growth is largely 1H driven due to cost deflation in the mid-to-high single digits range, 2H growth is still guided to be ~15% y/y. Ecolab has cultivated robust customer loyalty among their industrial and institutional customers for managing cleaning, water, and energy usage, enabling the company to drive cross selling and global growth from their "Circle the Customer" initiatives. We note ECL's 2024 guide does not assume an economic recovery in the European market and only cost deflation in 1H. Our 2024E EPS rises to \$6.50 (\$6.15 prior), reflecting modest pricing (<3%) and volumes (<2%) and 230bps of operating margin recovery.

Valuation multiple commensurate with 2024 earnings

ECL trades at 34x our 2024E EPS, at the top end of our coverage, roughly consistent with their 2024 EPS growth of 25% in the scatter plot of Exh 1. We value ECL based on an average of our DCF-derived present value of \$243 and a peer group average P/E of 34.0x (33.0x prior), which increased our PO to \$232 (\$216 prior). The comp group for this peer group multiple includes ROL, CTAS, SHW, and LIN, all having strong customer loyalty and pricing power. The lofty present value from our DCF for Ecolab is consistent with our constructive view of Ecolab's business model. We remain Neutral owing to lofty valuation, and expectations that earnings growth will moderate in 2H.

Strong 4Q, driven by margin improvement

ECL posted 4Q EPS of \$1.55, near the top end of their \$1.48-1.58 guide, driven by 5% pricing, slightly positive volume (+1%), and MSD y/y deflation in delivered product costs. Institutional & Specialty segment saw DD organic growth from pricing and business wins, and all other segments saw positive organic sales except Life Sciences (-8% org) and Paper (-5% org), due to difficult comparisons and market weakness. Organic operating income margin increased 200bps y/y and 50bps sequentially, reflecting both higher pricing and lower delivered product costs, driving towards the long-term margin goal of 20%+ (we model this in 2029/2030).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.49	5.21	6.50	7.43	8.36
GAAP EPS	3.81	4.79	6.23	7.23	8.14
EPS Change (YoY)	-4.3%	16.0%	24.8%	14.3%	12.5%
Consensus EPS (Bloomberg)			6.20	7.07	7.88
DPS	2.10	2.19	2.28	2.39	2.51
Valuation (Dec)					
P/E	49.3x	42.5x	34.0x	29.8x	26.5x
GAAP P/E	58.1x	46.2x	35.5x	30.6x	27.2x
Dividend Yield	1.0%	1.0%	1.0%	1.1%	1.1%
EV / EBITDA*	25.6x	22.8x	19.8x	18.5x	17.3x
Free Cash Flow Yield*	1.7%	2.6%	3.0%	4.0%	4.0%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 14 February 2024 09:07AM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	216.00	232.00
2024E Rev (m)	16,340.8	16,012.5
2025E Rev (m)	17,287.8	16,865.9
2026E Rev (m)	18,254.9	17,807.8
2024E EPS	6.15	6.50
2025E EPS	7.22	7.43
2026E EPS	8.19	8.36
2024E DPS	2.23	2.28

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Stock Data

Price	221.18 USD
Price Objective	232.00 USD
Date Established	14-Feb-2024
Investment Opinion	B-2-7
52-Week Range	150.47 USD - 221.55 USD
Mkt Val (mn) / Shares Out (mn)	63,067 USD / 285.1
Free Float	88.9%
Average Daily Value (mn)	255.03 USD
BofA Ticker / Exchange	ECL / NYS
Bloomberg / Reuters	ECL US / ECLN
ROE (2024E)	4,532.1%
Net Dbt to Eqty (Dec-2023A)	88.7%
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".

See glossary of abbreviations on page 3.

iQprofileSM Ecolab Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.2%	8.8%	10.8%	11.8%	12.7%
Return on Equity	5,008.7%	5,970.8%	4,532.1%	3,004.4%	2,277.9%
Operating Margin	11.0%	13.0%	16.0%	17.0%	17.7%
Free Cash Flow	1,076	1,637	1,903	2,508	2,549

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.6x	1.4x	1.6x	1.4x
Asset Replacement Ratio	0.8x	0.8x	0.8x	0.8x	0.8x
Tax Rate	17.5%	20.6%	21.6%	21.6%	21.6%
Net Debt-to-Equity Ratio	110.0%	88.7%	67.8%	50.9%	36.9%
Interest Cover	6.4x	6.7x	8.3x	12.2x	13.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,188	15,320	16,012	16,866	17,808
% Change	11.4%	8.0%	4.5%	5.3%	5.6%
Gross Profit	5,427	6,188	6,857	7,293	7,790
% Change	4.1%	14.0%	10.8%	6.3%	6.8%
EBITDA	2,787	3,125	3,608	3,843	4,123
% Change	3.1%	12.1%	15.5%	6.5%	7.3%
Net Interest & Other Income	(219)	(237)	(205)	(236)	(228)
Net Income (Adjusted)	1,287	1,493	1,853	2,093	2,326
% Change	-5.0%	16.0%	24.2%	12.9%	11.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,092	1,372	1,776	2,038	2,265
Depreciation & Amortization	939	939	963	970	963
Change in Working Capital	(277)	214	(211)	125	(27)
Deferred Taxation Charge	(143)	(46)	0	0	0
Other Adjustments, Net	177	(67)	116	130	145
Capital Expenditure	(713)	(775)	(740)	(755)	(797)
Free Cash Flow	1,076	1,637	1,903	2,508	2,549
% Change	-24.2%	52.2%	16.3%	31.7%	1.6%
Share / Issue Repurchase	(518)	(12)	(600)	(750)	(850)
Cost of Dividends Paid	(603)	(626)	(650)	(675)	(700)
Change in Debt	90	(501)	(322)	(321)	(422)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	599	920	1,516	2,334	2,973
Trade Receivables	2,698	2,834	3,003	3,097	3,246
Other Current Assets	2,198	1,890	2,027	2,018	2,085
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	15,970	16,203	16,128	15,913	15,747
Total Assets	21,464	21,847	22,675	23,363	24,051
Short-Term Debt	505	505	505	505	505
Other Current Liabilities	3,705	3,754	3,747	4,067	4,259
Long-Term Debt	8,075	7,574	7,253	6,932	6,510
Other Non-Current Liabilities	1,920	1,879	1,966	1,842	1,826
Total Liabilities	14,206	13,712	13,470	13,345	13,099
Total Equity	7,259	8,072	9,205	10,018	10,951
Total Equity & Liabilities	21,464	21,784	22,675	23,363	24,051

* For full definitions of iQmethodSM measures, see page 6.

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 2023, Ecolab generated \$15.3bn 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 1,153,051

Quarterly Earnings Estimates

	2023	2024
Q1	0.88A	1.33E
Q2	1.24A	1.57E
Q3	1.54A	1.81E
Q4	1.55A	1.79E

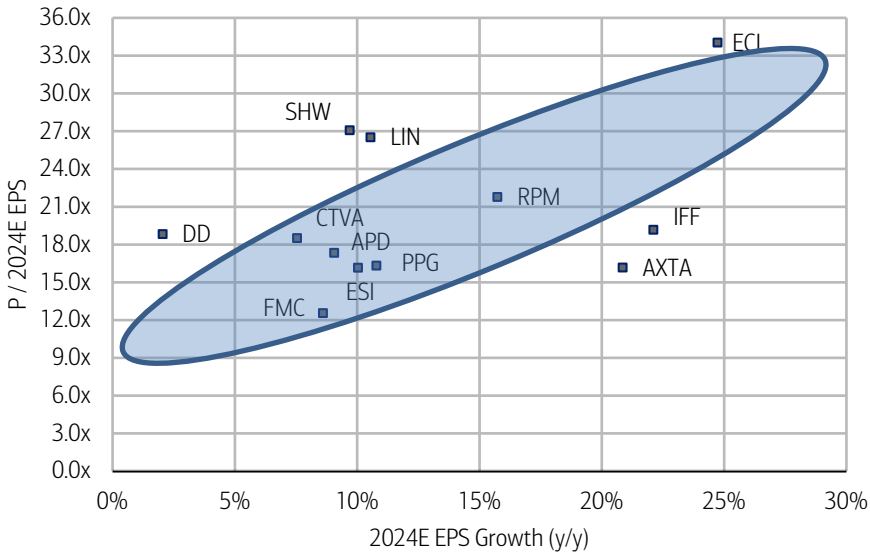
Glossary

MSD = mid single digit

DD = double digit

bps = basis points

Exhibit 1: P/E multiples and EPS growth expectations for Specialty Chemical coverage
Ecolab trades the most expensive by far, but also has the highest EPS growth



Source: BofA Global Research estimates

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Exhibit 2: Ecolab Income Statement Summary

We are raising our Adj EBITDA to \$6.50 from \$6.15

	2022	1Q'23	2Q'23	3Q'23	4Q'23	2023	1Q'24E	2Q'24E	3Q'24E	4Q'24E	2024E	2025E	2026E
Revenue	14,188	3,572	3,852	3,958	3,938	15,320	3,736	4,019	4,137	4,121	16,012	16,866	17,808
Cost of sales	8,761	2,202	2,327	2,325	2,279	9,132	2,184	2,321	2,327	2,322	9,155	9,573	10,018
Gross profit	5,427	1,370	1,525	1,634	1,659	6,188	1,552	1,697	1,810	1,798	6,857	7,293	7,790
Gross Margin	38.2%	38.3%	39.6%	41.3%	42.1%	40.4%	41.5%	42.2%	43.7%	43.6%	42.8%	43.2%	43.7%
SG&A	3,654	990	1,012	1,025	1,035	4,062	986	1,061	1,092	1,088	4,227	4,419	4,630
SG&A/Sales	25.8%	27.7%	26.3%	25.9%	26.3%	26.5%	26.4%	26.4%	26.4%	26.4%	26.4%	26.2%	26.0%
Special charges (gains)	210	28	29	43	35	134	22	5	5	5	37	0	0
Total operating expenses	9,291	2,388	2,566	2,701	2,729	10,383	2,560	2,763	2,907	2,891	11,122	11,712	12,420
Operating income (GAAP)	1,563	352	485	566	590	1,992	522	626	708	701	2,556	2,874	3,160
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)	(18)	(60)	(13)	(13)	(13)	(13)	(52)	0	0
Interest expense, net	244	74	78	74	70	297	77	77	77	77	309	236	228
Income before taxes	1,343	291	421	506	538	1,756	457	562	644	636	2,299	2,638	2,932
Provision for taxes	235	52	87	97	127	363	99	121	139	137	497	570	633
GAAP tax rate	17.5%	18.0%	20.6%	19.1%	23.6%	20.6%	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%
Minority interest	17	5	5	5	6	21	5	7	7	7	27	31	34
Minority interest as % of after-tax income	1.6%	2.0%	1.5%	1.3%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Net income, continuing operations	1,092	233	330	404	405	1,372	353	434	497	491	1,776	2,038	2,265
GAAP Diluted EPS	\$3.81	\$0.82	\$1.15	\$1.41	\$1.41	\$4.79	\$1.23	\$1.52	\$1.74	\$1.73	\$6.23	\$7.23	\$8.14
Basic shares outstanding	285	285	285	285	285	285	285	284	283	282	283	280	276
Diluted shares outstanding	287	286	286	287	287	287	286	286	285	284	285	282	278
Dividend per share	\$ 2.04	\$ 0.53	\$ 0.53	\$ 0.53	\$ 0.57	\$ 2.16	\$ 0.57	\$ 0.57	\$ 0.57	\$ 0.57	\$ 2.28	\$ 2.39	\$ 2.51
Adjusted earnings:													
Adjusted operating income	1,772.9	379.3	513.8	608.6	624.5	2,126.2	543.6	631.2	712.8	705.5	2,593.1	2,873.9	3,160.1
Adjusted EBITDA	2,786.7	626.7	757.6	852.5	887.9	3,124.7	789.1	877.8	959.8	981.4	3,608.2	3,843.4	4,123.0
Pretax Income, ex 1-Time Items	1,604	318	450	549	572	1,889	479	567	649	641	2,336	2,638	2,932
Taxes, ex 1-Time Items	300	63	90	102	122	376	94	111	127	125	456	515	572
Adjusted Tax Rate (%)	18.7%	19.8%	19.9%	18.5%	21.3%	19.9%	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	444.6	1,492.7	380.5	449.8	514.5	508.5	1,853.3	2,092.6	2,325.8
Adjusted diluted EPS	\$4.49	\$0.88	\$1.24	\$1.54	\$1.55	\$5.21	\$1.33	\$1.57	\$1.81	\$1.79	\$6.50	\$7.43	\$8.36

Source: Company financials, BofA Global Research estimates

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Price objective basis & risk

Ecolab Inc (ECL)

Our \$232 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 peer group average P/E of 34.0x 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 valuations. 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.

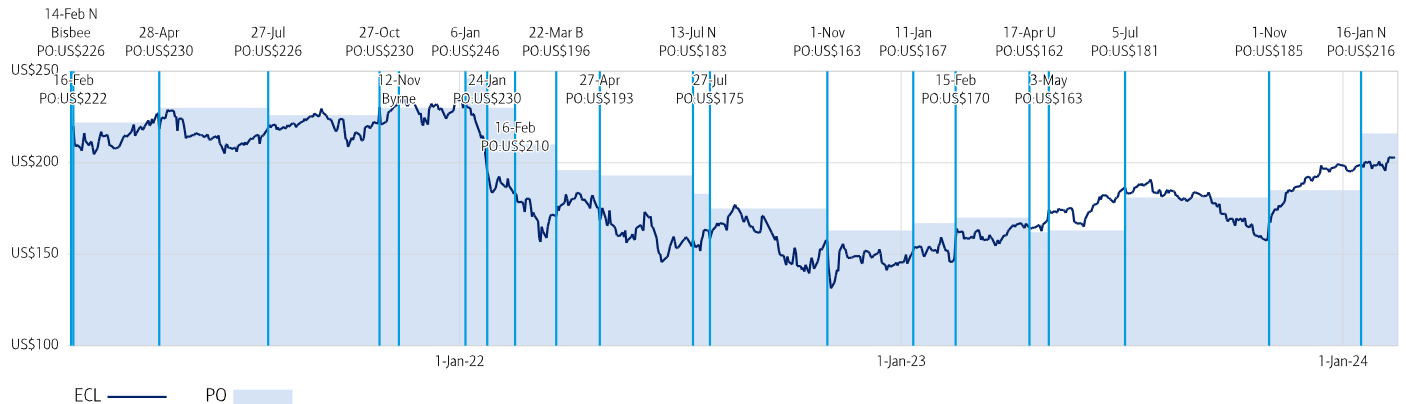
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Disclosures

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.

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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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