

Republic Services

Strong finish – FCF is the idiosyncratic story - RSG at BofA conference tomorrow

Reiterate Rating: BUY | PO: 205.00 USD | Price: 187.19 USD

Strong finish – waste margins continue to impress...

A key theme for the waste sector in Q4 is the impressive margin expansion and Republic Services (RSG) did not disappoint (Q4: +260bps YoY – even ES margin expanded 250bps on flat revenue). Overall Q4 EBITDA of \$1.145bn increased 19% YoY on a 9% revenue gain. EBITDA came in 8% ahead of consensus and RSG exceeded its 2023 guidance across sales, EBITDA and FCF. Key bright spots in Q4: core price on related revenue up 8.8% (vs Q3 8.6%), open pricing still robust (10.6% vs Q3 10.4%), volumes still positive (+30bps).

...yet idiosyncratic: FCF hits a record, to grow in 24

Where is RSG separating from the overall waste sector? RSG reported adj FCF of \$1.99bn in '23, up 14% YoY, and exceeding its guide (\$1.9-1.925bn). RSG expects '24 FCF growth of ~7% (\$2.1-2.15bn), a new record, at a time peers FCF is constrained (rising capex initiatives) and overall waste sector FCF yields are relatively low.

2024 guide: positive outlook – feels conservative (to us)

RSG provided a more positive 2024 outlook vs preliminary views: sales of \$16.1-\$16.2 (+8% YoY) and EBITDA of \$4.825bn-\$4.875bn (+8-10% YoY vs HSD growth). The one area that feels conservative to us is 30-40bps of margin expansion given the momentum in Q4, positive price vs cost, and rising recycled values. Albeit we would note that the guide also includes overcoming 30bps of margin headwind from M&A as RSG plans to spend ~\$500mn on solid waste, recycling, and ES acquisitions in FY24.

Buy: BofA hosting RSG tomorrow – look for clues

We raise estimates following results. We raise our PO to \$205 (\$182) based on 15.5x 2024 EBITDA (vs 14x prior) given re-rating in the comps, expanding margin, positive price vs cost spread. We maintain our Buy-rating on rising FCF and visibility into 2024. We host RSG at BofA conference tomorrow – we look for clues on new baseline level of FCF, multi-year margin progression, and new levers to grow business (i.e., recycling).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.93	5.60	6.00	6.65	7.26
GAAP EPS	5.17	5.74	6.00	6.65	7.26
EPS Change (YoY)	18.5%	13.6%	7.1%	10.8%	9.2%
Consensus EPS (Bloomberg)			5.96	6.63	7.25
DPS	1.91	2.06	2.20	2.31	2.43
Valuation (Dec)					
P/E	38.0x	33.4x	31.2x	28.1x	25.8x
GAAP P/E	36.2x	32.6x	31.2x	28.1x	25.8x
Dividend Yield	1.0%	1.1%	1.2%	1.2%	1.3%
EV / EBITDA*	18.6x	16.5x	15.1x	14.1x	13.3x
Free Cash Flow Yield*	2.9%	3.4%	3.6%	3.8%	4.0%

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

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	182.00	205.00
2024E Rev (m)	15,910.6	16,190.1
2025E Rev (m)	16,788.7	17,105.8
2026E Rev (m)	NA	17,956.0
2025E EPS	6.60	6.65
2026E EPS	NA	7.26

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Stock Data

Price	187.19 USD
Price Objective	205.00 USD
Date Established	28-Feb-2024
Investment Opinion	A-1-7
52-Week Range	126.58 USD - 186.20 USD
Mkt Val (mn) / Shares Out (mn)	58,897 USD / 314.6
Free Float	65.0%
Average Daily Value (mn)	232.67 USD
BofA Ticker / Exchange	RSG / NYS
Bloomberg / Reuters	RSG US / RSG.N
ROE (2024E)	17.0%
Net Dbt to Eqty (Dec-2023A)	120.3%
ESGMeter™	High

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ES = Environmental Services

FCF = Free cashflow

HSD = High single digit

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Timestamp: 28 February 2024 12:07PM EST

iQprofileSM Republic Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.3%	8.3%	8.0%	8.3%	8.6%
Return on Equity	16.8%	17.5%	17.0%	17.0%	16.7%
Operating Margin	18.4%	19.0%	19.0%	19.5%	19.9%
Free Cash Flow	1,736	1,987	2,128	2,222	2,364

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.0x	2.0x	2.1x	1.9x	1.9x
Asset Replacement Ratio	1.0x	1.0x	1.0x	1.0x	1.0x
Tax Rate	18.9%	21.4%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	120.2%	120.3%	95.0%	75.8%	58.5%
Interest Cover	6.3x	5.6x	5.6x	6.2x	6.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	13,511	14,965	16,190	17,106	17,956
% Change	19.6%	10.8%	8.2%	5.7%	5.0%
Gross Profit	5,311	6,022	6,602	7,030	7,416
% Change	16.6%	13.4%	9.6%	6.5%	5.5%
EBITDA	3,931	4,447	4,863	5,212	5,530
% Change	16.2%	13.1%	9.4%	7.2%	6.1%
Net Interest & Other Income	(560)	(588)	(555)	(540)	(525)
Net Income (Adjusted)	1,564	1,775	1,895	2,096	2,280
% Change	17.6%	13.5%	6.8%	10.6%	8.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,564	1,775	1,895	2,096	2,280
Depreciation & Amortization	1,441	1,599	1,730	1,828	1,919
Change in Working Capital	(231)	(88)	167	12	(70)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	416	332	135	135	135
Capital Expenditure	(1,454)	(1,631)	(1,800)	(1,850)	(1,900)
Free Cash Flow	1,736	1,987	2,128	2,222	2,364
% Change	18.1%	14.4%	7.1%	4.4%	6.4%
Share / Issue Repurchase	(14)	(1)	0	0	0
Cost of Dividends Paid	(593)	(638)	(696)	(730)	(764)
Change in Debt	(14,282)	(40,411)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	143	140	1,659	3,007	4,462
Trade Receivables	1,677	1,768	1,774	1,781	1,869
Other Current Assets	537	473	473	473	473
Property, Plant & Equipment	10,743	11,351	11,401	11,402	11,363
Other Non-Current Assets	15,951	17,678	17,543	17,408	17,273
Total Assets	29,051	31,410	32,850	34,071	35,441
Short-Term Debt	456	932	932	932	932
Other Current Liabilities	2,932	3,296	3,469	3,488	3,507
Long-Term Debt	11,329	11,887	11,887	11,887	11,887
Other Non-Current Liabilities	4,647	4,751	4,751	4,751	4,751
Total Liabilities	19,364	20,867	21,040	21,059	21,078
Total Equity	9,687	10,544	11,743	12,945	14,296
Total Equity & Liabilities	29,051	31,410	32,782	34,003	35,374

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

Company Sector

Industrial Machinery

Company Description

Republic is the second largest non-hazardous waste operator, servicing commercial, industrials, municipal, and residential customers across 41 states and Puerto Rico. The company is vertically integrated, owning 340 collection operations, 198 transfer stations, 189 active solid waste landfills and 60 recycling centers. Republic has significant economies of scale, with 68% of the waste it collects disposed at its own landfill.

Investment Rationale

We expect RSG to be a beneficiary of positive long-term trends in the waste cycle (landfill pricing, recycling restructuring, landfill gas to renewables) and the company is likely to emerge a beneficiary as a fragmented waste industry consolidates over time. We like the fundamental story that is gaining momentum - improving operational execution, margin expansion, and rising FCF conversion.

Stock Data

Average Daily Volume 1,242,955

Quarterly Earnings Estimates

	2023	2024
Q1	1.24A	1.38E
Q2	1.41A	1.58E
Q3	1.54A	1.65E
Q4	1.41A	1.40E

Price objective basis & risk

Republic Services (RSG)

Our \$205 price objective is based on 15.5x EV/EBITDA for 2024E, near the high end of its historical valuation range and consistent with peer Waste Management. We believe the high end of the range is appropriate as earnings are likely to continue to recover in 2024, waste offers higher visibility than other sectors, pricing backdrop continues to improve, and FCF is likely to remain positive. Relative to history, higher multiple stems from an improving pricing discipline for the waste industry, sustainability initiatives and overall stability in an uncertain, global industrial backdrop, in our view.

Upside risks to our PO are: 1) stronger-than-expected housing data, 2) higher-than-expected pricing trends, and 3) more aggressive cash return to shareholders than we currently envision. Downside risks to our PO are: 1) lower-than-expected CPI, 2) environmental liabilities. 3) Mix impact from higher waste generation at the home. 4) continued COVID-19 concerns.

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	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				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	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
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	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



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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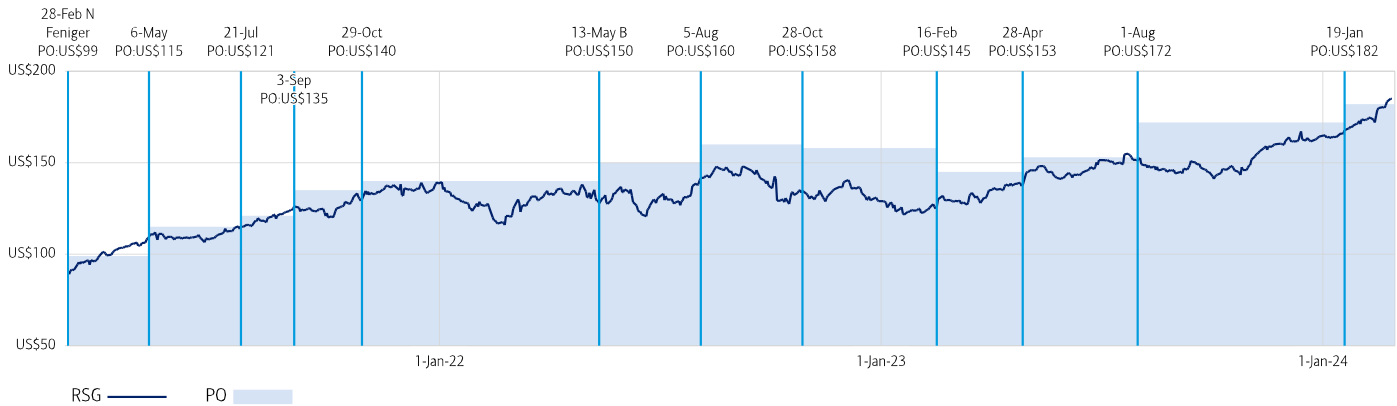
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Republic Services (RSG) Price Chart



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: 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}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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