


Waste Management (WM)

Equity Report: By Marc Navia



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Company Overview

- Waste Management company who provides comprehensive waste management environmental service to residential, commercial, and industrial customers
- Executive office are located in Houston Texas
- Employ 42,300





Financials At A Glance

	Year	2016	2017	TTM	2019E	2020E
	Revenue	13,609	14,485	14,724	15,534	16,210
	P/E	28.5	27.6	23.56	21.25	
Price (1-25-2019)	94.90					
Fair Value	104.28					
52-Week Range	78.39 – 95.50					
Market Cap (US\$ m)	40,500					
	EPS	2.85	3.28	4.00	4.43	
	P/B	5.88	6.21	6.45	6.03	
	ROE	22.21%	34.45%	39.89%		
Analyst Information						
Marc Navia						
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	ROA	5.73%	9.13%	10.55%		



Stock Price Chart





Company Information

INTRODUCTION

O1

They are currently the leading management provider in North America

More into the Business

- 249 Landfills (largest landfill network in NA)
- 5 Business Segment
 - Collection
 - Landfill
 - Transfer
 - Recycling
 - Other





Revenue by Business Segment

Table 1: Waste Management Business Segments

Segment	2015	2016	2017	3YR Growth %
Collection	8,439	8,802	9,264	2.88%
Landfill	2,919	3,110	3,370	5.76%
Transfer	1,377	1,512	1,591	5.55%
Recycling	1,163	1,221	1,432	1.49%
Other	1,452	1,601	1,713	3.15%
Intercompany	(2,389)	(2,637)	(2,885)	-
	12,961	13,609	14,485	



The Waste Management Process

02



Waste Collection

Trucks are sent out to pick-up and waste from their various customers

Waste Transportation

Waste is usually sent to a transport site where it is compacted and then sent out to the land-fill



Landfill

The central location for where waste is disposed. Third-party hauler will also send their waste straight here



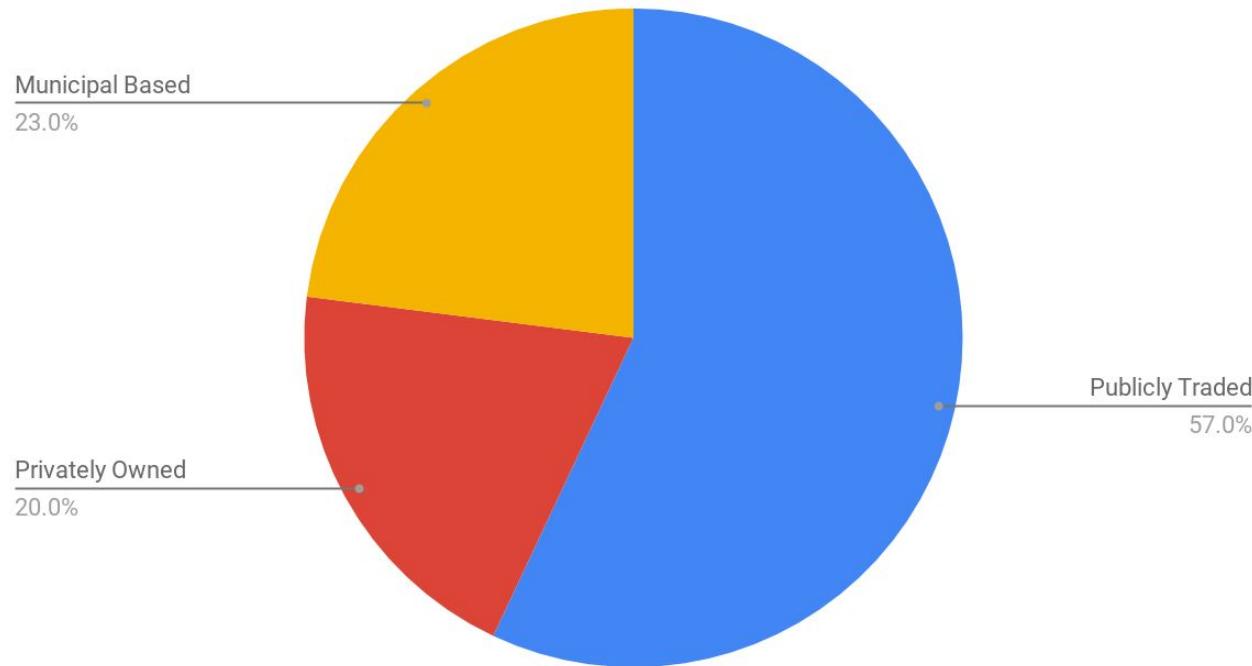
Competitors

Their two largest competitors are *Waste Connection & Republic Service*. They also compete with 1000's of local and regional waste management companies

Table 2: Competitor Comparison

	Waste Management	Waste Connection	Republic Service
Market Cap (M)	40,250	24,620	21,130
Revenue (TTM)	14,724	4,818	10,071
Operating Margin	18.3%	17.2%	17.4%
ROE %	39.89%	11.68%	17.69%
ROA %	10.55%	6.05%	6.61%
Dividend Growth Rate (5yr)	4.96%	-5.54%	7.78%

Waste Industry Broken-down by Ownership Type





Valuation



Profitability

Waste Management continues to improve their top-line by focusing on their long-term strategy of differentiation and process improvement

- 01 | Positive revenue growth for the past 3 years
- 02 | All business segment saw positive growth for the past 3 years
- 03 | ROE % in the double digits since 2014
- 04 | Revenue 50% greater than their second closest competitor
- 05 | ROIC% is an impressive 16.69%

A large, hand-drawn style word "GROWTH" in blue. A woman's hand with light-colored nail polish is visible on the right side, holding a blue marker and drawing a horizontal line underneath the word.



WACC to ROIC

6) History



Financial Health



- Current Ratio of 0.87
 - Similar to their two main Competitors
- Constant YOY% Growth in cash flow
 - Has significantly been exceeding their LT-Debt
- While low on cash their accounts receivable double that of their accounts payable
- Very low operating cost
 - Only need to pay for trucks and their maintenance



Competitive Advantage

Landfills

249

Largest network in North America

Intangible Assets

Barrier to Entry

Preventing growth of smaller competition

Margins

38%

One of the strongest in the industry

The company has also taken steps to focus on the whole waste process by owning assets throughout each step of the waste disposal process. This has allowed the company to lower their cost which in return have increased their margins.



Company News 2018

China crackdown

China creates new measures to curb scrap-material imports

4-5-2018

3-12-2018

Tax-Change

Waste Management is one of the biggest beneficiaries of the new tax change

12-6-2018

Board of Directors Approval

Approved a 10.2% increase in planned quarterly dividend rate for 2019 and a \$1.5 billion stock repurchase

Sustainability Award

They earned an A Grade from the environmental non-profit CDP which identifies companies who focus on combating climate change. They have earned this reward for the third straight year



12-12-2018



Environmental Services' Former and New Tax Rates

	Tax Rate Assumed in 2018 Guidance		
	Pre-Reform Tax Rate	Post-Reform Tax Rate	Variance
ADVANCED DISPOSAL SERVICES	40.0%	27.0%	-13.0%
REPUBLIC SERVICES INC	39.5%	27.0%	-12.5%
STERICYCLE INC	36.5%	26.3%	-10.3%
WASTE MANAGEMENT INC	36.0%	26.0%	-10.0%
WASTE CONNECTIONS INC	29.0%	23.0%	-6.0%
CLEAN HARBORS INC	Low 40's	N/A	N/A
COVANTA HOLDING CORP	N/A	N/A	N/A
Environmental Services Average	36.2%	25.9%	-10.4%

Source: Bloomberg Intelligence, Company Filings/Presentations

Note: The pre-reform tax rate values are taken from the most recently available tax guidance pre tax reform

Bloomberg

Risk

- Recycling segment has seen headwinds
 - Caused by stringent regulation
- Huge Competition
 - While dominant they still have to compete with 1000's of companies
- Less acquisition potential





CEO

Jim Fish

He has been with the company since 2001 and has served the roles as CFO for the company before he was promoted. During his time as CFO he enacted changes such as restructuring which caused a significant boost in cost efficiency and margins.



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Valuation Modeling

Discounted Cash Flow Model

Bell Tower Capital Management General Information					
Company Information			Macroeconomic Factors		Model Results
Ticker	WM	DES	Risk Free Rate	2.741% CRP	
Share Price	\$94.41	DES	Expected Market Return	10.67% CRP	
Market Capitalization (\$mi)	\$40,251.00	DES			
Shares Outstanding	426342548.5				
Beta	0.824	BETA			
Dividends Per Share	\$1.86	DVD			
Dividend Yield	1.97%				
			Discounted Cash Flow		
WACC	8.10%	WACC	Fair Value	\$104.28	
Cost of Equity	7.30%	WACC	Margin of Safety	9.47%	
Cost of Debt	0.70%	WACC			
			Dividend Discount Model		
			Fair Value	25.47945205	
			Margin of Safety	-270.53%	
Short Term Debt (\$mil)	\$3,262.00	FA 3			
Long Term Debt (\$mil)	\$8,752.00	FA 3			
Total Debt	\$12,014.00				
Enterprise Value (\$mil)	\$52,265.00				
Tax Rate	11.05%	FA 5			



Bell Tower Capital Management

Discounted Cash Flow Model

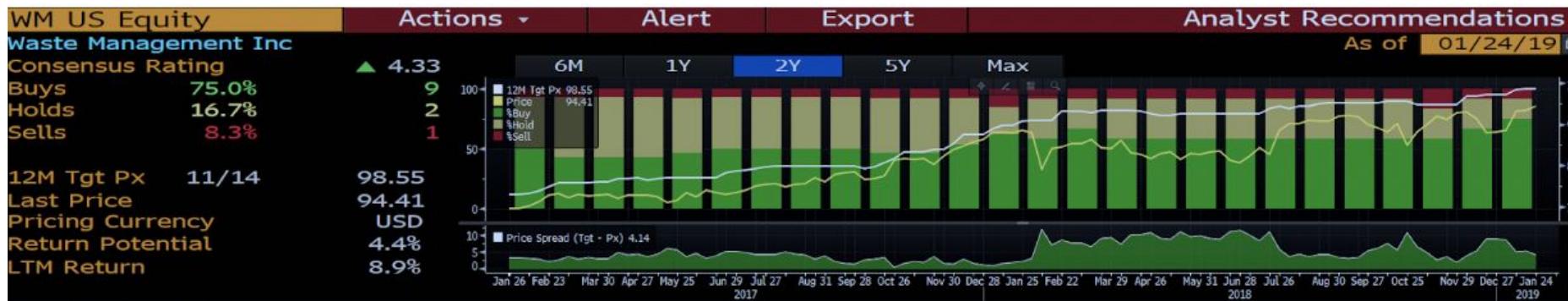
Year	Free Cash Flow (\$mil)	Short Term Growth Rate (5Y)	Gordon Growth Model		Discounted Cash Flow Model	
			15.00% EEO	Estimation of Future Cash Flows	Current Value of Estimated Future Cash Flows	
Y0	\$1,180.00			Y0 Cash Flow	\$1,934.30	Y0
Y1	\$1,295.00	Long Term Growth Rate	3.00% EEO	Y1 Cash Flow	\$2,224.45	Y1
Y2	\$1,667.00			Y2 Cash Flow	\$2,558.11	Y2
Y3	\$1,671.00			Y3 Cash Flow	\$2,941.83	Y3
TTM	\$1,682.00			Y4 Cash Flow	\$3,383.10	Y4
Note: EEO gives analyst estimates for a variety of company metrics and growth numbers. It is important to do your own research before accepting any numbers given by analysts.				Terminal Value	\$68,325.41	Terminal Value (adj.)
						Enterprise Value (\$mil)
						Value of Equity (\$mil)
						Shares Outstanding
						Value/Share
						Margin of Safety
						9.47%



Multiples Valuation



Analyst Ranking





Conclusion

Reasons Waste Management is a Buy

- | | |
|---|--|
| <ul style="list-style-type: none">• Strong Competitive Advantage | <ul style="list-style-type: none">• It is defensive like stock<ul style="list-style-type: none">◦ Low Beta◦ Decent Dividend |
| <hr/> <ul style="list-style-type: none">• The dominant market leader in their sector<ul style="list-style-type: none">◦ Consistent growth | <hr/> <ul style="list-style-type: none">• Under-value<ul style="list-style-type: none">◦ Compared to largest competitors by multiples◦ Slightly by Discounted Cash Flow Model |



Thank you.

