

Waste Management

(WM)

Price ({Date}) 94.90
Fair Value 104.28
52-Week Range 78.39 – 95.50
Market Cap (US\$ m) 40,500

Analyst Information
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Company Overview

Waste Management Inc. is a holding company whose operations are all conducted through its subsidiaries. They are a waste management company who provides comprehensive waste management environmental services to residential, commercial, industrial, and municipal customers. The company's headquarters are in Houston Texas and currently employ 42,300 people 94.54-95.50

Year	2016	2017	TTM	2019E	2020E
Revenue	13,609	14,485	14,724		
P/E	28.5	27.6	18.0		
EPS	2.65	4.41	5.27		
P/B	7.1	6.1	6.5		
ROE	22.21%	34.45%	39.89%		
ROA	5.73%	9.13%	10.55%		



Company Information

Introduction (Where they conduct business, What They Do/There segments of business,)

Waste Management is currently the leading waste management provider in North America. They own 249 landfill sights which is the largest network of landfills in North America. They have 5 segments of business in which they operate which are collection, landfill, transfer, recycling, and Other. The table below shows the revenue brought in from each 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	

In their collection segment of their business they use their vast waste network which includes (Landfills, transfers stations, and materials recovery facility). They pick-up and then transport the waste to their facilities. The landfill segment involves and operations of disposing waste and the maintenance of such facility. For the transfer segment of the business it involves the collection of waste and the reduction of volume of density of the waste where it is eventually then sent out to a landfill. Their Recycling service involves multiple services. These segments to this business area include materials processing, recycling commodities, and recycling brokerage services. The last segment of business is other, which is a umbrella segment that include projects that involves landfill natural gas, Energy and Environmental Service and other projects that are supplementary to their current operations.

Competitors (Who are they, How they compare, How big are they compare to competitors)

Waste Management is the current market leader in waste management, but they have two main competitors. There two main competitors are Waste Connections Inc. and Republic Service Inc. These two competitors conduct business mostly in North America. On top of these two main competitors Waste Management competes with any local and regional waste management companies that provide specialize services. The table below compares Waste Management to their two main competitors

Table 2: Competitor Comparison

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

Valuation

Profitability (Revenue, ROE, ROA, ROIC)

Waste Management continues to improve their top line by focusing on their long-term strategy of differentiation and process improvement. Looking back at table 1 waste management has found a way to find positive YOY% growth in all of their segments. They are executing well on their first part of their strategy of differentiation. From this we have seen steady positive revenue growth for the past 3 years with their TTM Revenue of \$14,724 million. Since 2014 their Return on Equity has been in the double digits with a strong TTM ROE of 39.89% Their Return on Asset is also solid with a TTM ROA % of 10.55%. Also their Return on Invested Capital is 16.69% which shows that Waste Management has been highly effective on their borrowing.

Financial Health (Debt, Cash Flow,)

The current ratio for Waste Management is 0.87 which is in line with its two main competitors. The company also has experience constant YOY% growth in free cash flow which has been significantly exceeding their long-term debt growth. While they don't have significant cash on hand, they have a significant amount of account receivable which almost doubles their accounts payable. They also have very low operating cost making only significant capital expenditures on items such as trucks which only need minor maintenance.

Competitive Advantage ()

The company's long-term focus on differentiation and business process improvement has given them a significant edge over their competitors. Constant improvement in their recycling and transport business segment has given the company significant returns on their investment while also increasing their dominance in waste removal. Their huge network of landfills gives them a significant cost advantage over their competitors for multiple reasons bulleted below

- More efficient collection routes
- They can serve a larger magnitude of consumers (residential to industrial)

- Many third-party trash haulers turn to Waste Management for disposal

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 increase their margins. By owning significant assets in each step of the value chain they have also been able to prevent the entry and growth of waste competitors. They have a significant number of regulatory permits which take a great deal of time and money since pollution has taken the for-front of America problem. This significant cost makes it very hard for new competitors to enter emerging opportunities such as recycling while also preventing larger competitors from taking significant market share

News (Current article)

Extra (Additional Explanation)

Waste Management is a company who would be able to fare well against an economic down turn. Compare to other industries the waste industry wouldn't face as significant loses as compare to a industry such as retail. With their significant competition advantage and previous track history of handing a previous recession, Waste Management would serve as a defensive like stock. Their low beta shows that they would react significantly less compare to the market while they also provide a decent dividend. While their dividend is not the largest, they have shown a track history of constant and growing dividend.

Waste Management is not as prone to the current economic problem facing our country right now. The trade war with china only affects them slightly with their recycling side of the business. Since they sell a portion of their recycle process goods to china they have experience some slight headwinds in this business segment.

Risk

While a growing and important portion of their business, recycling has been recently seeing trouble with price fluctuation and regulations. Stinger regulation has caused the cost of process recycle goods to be larger while the possibility of these recycle goods such as aluminum prices fluctuating down. Also, while they are the most dominant player in the waste management industry, they have to constantly compete with hundreds much smaller competitors in local markets. While they are small they are able to be somewhat competitive when it comes to pricing

Management

The current CEO of Waste Management is 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. Management vision on diversification and business process improvement has shown to be effective which has allowed management to increase dividends and stock repurchase.

Valuation Modeling

Bell Tower Capital Management									
General Information									
Company Information				Macroeconomic Factors			Model Results		
Ticker	WM			Risk Free Rate	2.741%	CRP			
Share Price	\$94.41	DES		Expected Market Return	10.67%	CRP			
Market Capitalization (\$mil)	\$40,251.00	DES					Discounted Cash Flow		
Shares Outstanding	426342548.5						Fair Value	\$104.28	
Beta	0.824	BETA					Margin of Safety	9.47%	
Dividends Per Share	\$1.86	DVD					Dividend Discount Model		
Dividend Yield	1.97%						Fair Value	25.47945205	
WACC	8.10%	WACC					Margin of Safety	-270.53%	
Cost of Equity	7.30%	WACC							
Cost of Debt	0.70%	WACC							
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)	15.00%	EEO	Gordon Growth Model		Discounted Cash Flow Model	
Y0	\$1,180.00				Estimation of Future Cash Flows		Current Value of Estimated Future Cash Flows	
Y1	\$1,295.00	Long Term Growth Rate	3.00%	EEO	Y0 Cash Flow	\$1,934.30	Y0	\$1,789.36
Y2	\$1,667.00				Y1 Cash Flow	\$2,224.45	Y1	\$1,903.58
Y3	\$1,671.00				Y2 Cash Flow	\$2,558.11	Y2	\$1,873.34
TTM	\$1,682.00	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.			Y3 Cash Flow	\$2,941.83	Y3	\$2,328.84
					Y4 Cash Flow	\$3,383.10	Y4	\$2,291.85
					Terminal Value	\$68,325.41	Terminal Value (adj.)	\$46,286.44
							Enterprise Value (\$mil)	\$56,473.41
							Value of Equity (\$mil)	\$44,459.41
							Shares Outstanding	426,342,548.46
							Value/Share	\$104.28
							Margin of Safety	9.47%

Appendix

Image 1: Past and Future Predicted Growth

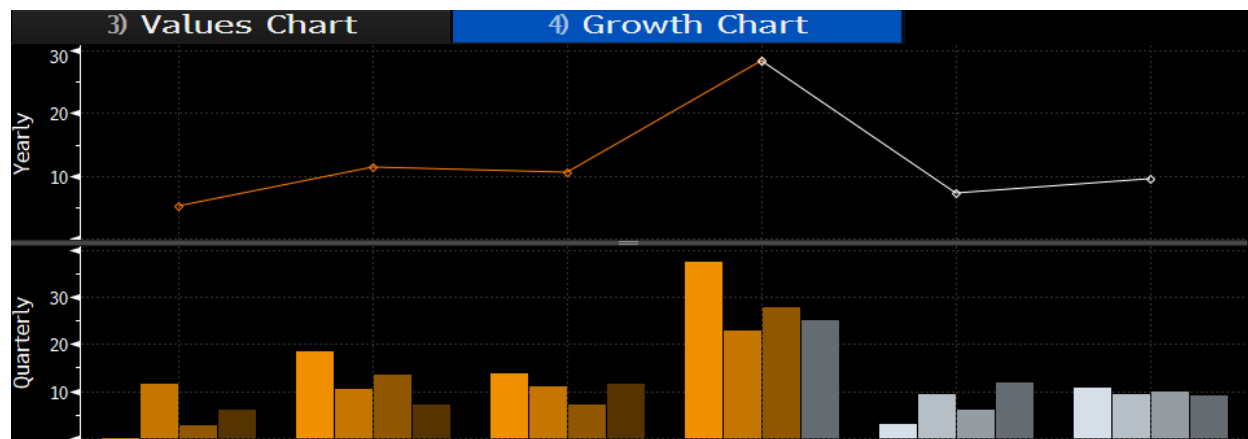


Image 2: Current Multiple Comparison to Competitors

Current vs 5Yr Average Historical Premium							5Yr Historical Premium Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend		Low	Range	High	Multiple	Price (USD)
Current Price											94.41
11) BF P/E	-10%	-19%	8%	1.5			-29%	Current	-3%	19.2x	85.61
12) BF EV/EBITDA	5%	-4%	9%	1.6			-16%		8%	10.4x	84.55
13) BF EV/EBIT	-12%	-20%	9%	2.2			-30%		-10%	15.4x	82.88
14) BF EV/Rev	24%	7%	17%	1.7			-20%		27%	2.8x	77.85
15) LF P/BV	89%	57%	32%	1.3			-3%		96%	5.4x	78.50
Summary of Current Multiples											9) View All Comps Below
Name	2Y Corr	Mkt Cap (USD)	BF P/E	BF EV/EBITDA	BF EV/EBIT	BF EV/Rev	LF P/BV				
1) Waste Management Inc		40.25B	21.2x	11.3x	17.1x	3.2x	6.5x				
Current Premium to Comps Mean			-10%	5%	-12%	24%	89%				
Mean (Including WM US)		10.07B	23.6x	10.8x	19.4x	2.6x	3.4x				
2) Republic Services Inc	0.82	24.62B	23.1x	10.9x	17.8x	3.1x	3.1x				
3) Waste Connections Inc	0.65	21.13B	28.2x	14.2x	24.1x	4.6x	3.2x				
4) Advanced Disposal Services Inc	0.44	2.15B	37.0x	8.9x	26.3x	2.5x	2.4x				
5) Clean Harbors Inc	0.40	3.22B	36.8x	9.0x	23.2x	1.3x	2.7x				
Grey values are excluded from group stats.											10) Analyze List

Image 3: Analyst Rating



Image 4: WACC to ROIC

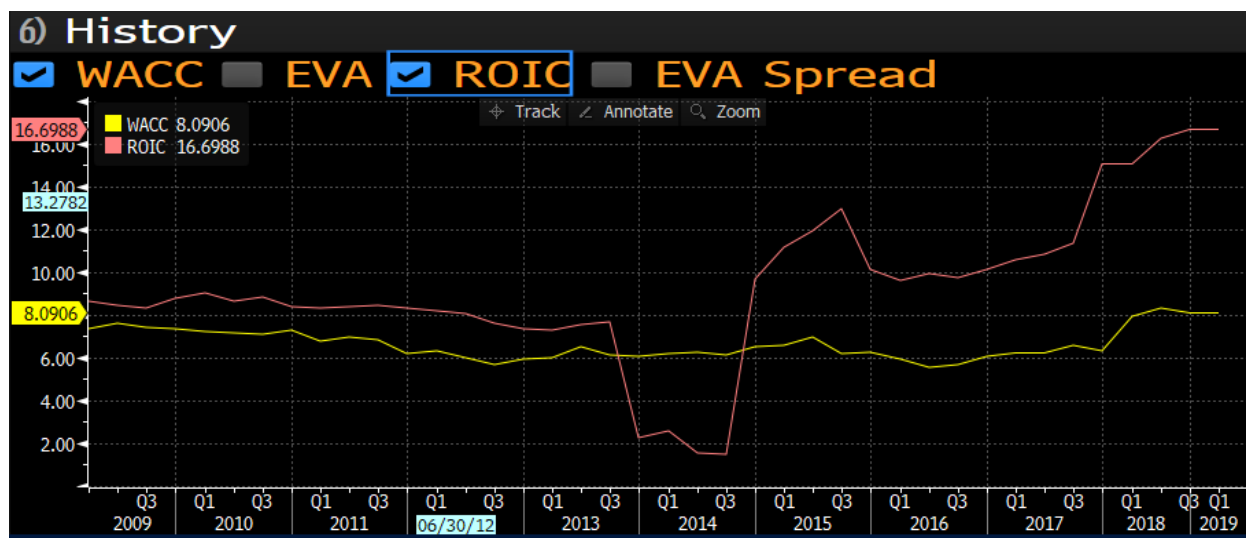


Image 5: Dividend Chart

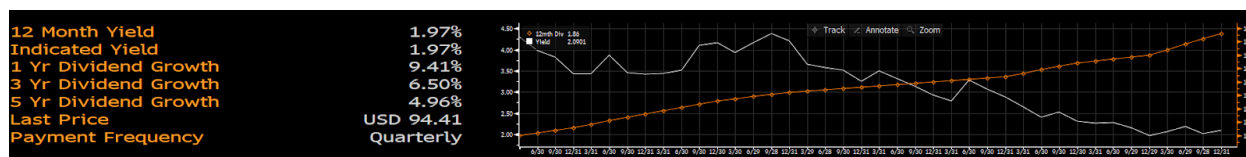


Image 6: Revenue Broken down by Segment and Geography

8) Geo Seg FA GEO »	2017 Rev	3Yr Gr	9) Prod Seg FA PROD »	2017 Rev	3Yr Gr
United States and Puerto Rico	13.8B	1.76%	Collection	9.3B	2.88%
Canada	717.0M	-8.37%	Landfill	3.4B	5.76%
			Other	1.7B	3.15%
			Transfer	1.6B	5.55%
			Recycling	1.4B	1.49%