

Waste Management (NYSE: WM)

Sector: Industrials



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$122.44	\$110.00	\$121.77	\$83.49	25.69	\$46.87B	1.86%	.76

Business Description:

Waste Management, Inc. (WM) provides waste management services including collection, transfer, recycling, resource recovery, and disposal services, and operates waste-to-energy facilities. The company services municipal, commercial, industrial, and residential customers throughout North America. Its sites include more than 250 owned or operated landfills (the industry's largest network), more than 300 transfer stations, and around 100 material recovery facilities. Collection services account for more than 50% of sales.

Industry Trends:

The environmental and facilities services sub-industry is defensive in comparison to the greater market. This is a positive when considering the recent volatility in global and domestic markets. Commodity prices will continue to be a headwind throughout the rest of 2019, as the industry must adapt to China's import ban. According to S&P, commodity prices are likely to stabilize significantly in 2020. The largest North American haulers will continue to divest underperforming assets and make selective acquisitions as smaller haulers face operating difficulties. YTD, through September 20, 2019, the Environmental and Facilities Services Index has increased 26.6% versus a 19.0% increase for the S&P Composite 1500 Index.

Investment Thesis:

We believe WM is a strong buy due to its defensiveness through business cycles, strong financials, and leadership within the industry. With a diverse revenue mix with sources such as residential, public sector, manufacturing, offices, venues, and more, WM has a largely uncorrelated revenue stream. Additionally, as a non-discretionary expenditure, the business provides an investment portfolio with defense against economic downturns. Furthermore, WM has shown consistent, strong financials in recent years. Net income increased 25.25% in 2018. Additionally, through strong cash management, management has been able to make strategic decisions and generate an ROIC of 14.6% in 2018. Finally, as North America's leader in waste disposal, the company serves 21 million customers through 314 transfer stations and 252 owned or operated landfills, 90 recycling plants, and 130 beneficial-use landfill gas projects.

Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 3.00%

Margin of Safety: 11.31%

5-Year Share Price Performance:



Competitive Advantage and Analysis:

WM plans to remain an industry leader through its hard-to-replicate infrastructure, development, expansion, sustainability efforts, deep domain expertise, and community partnerships. WM has an industry-leading post-collection, landfill, and recycling network. With a vast network, WM can cut costs through transportation options and a diverse geographical portfolio. Furthermore, managing over 10.8 million tons of recycling per year, WM is focused on its unique recycling capabilities through its strong relationships and international presence. With a strong focus on technology, WM plans to transform its post-collection network through converting waste into energy, buildings, etc.

Risks:

One significant headwind facing WM is the restriction of exported goods to China. China has imposed new tariffs on the import of recyclable commodities, including wastepaper, plastics and metals. If the Chinese government's regulations, tariffs, initiatives, or other similar regulations result in further reduced demand or increased operating costs, the profitability of our recycling operations may decline. Many other markets, both domestic and foreign, have tightened their quality expectations as well. Other risks include a rise in fuel prices and weaker economic growth.

Corporate Social Responsibility Highlights:

- 15.3 million tons recycled in 2017
- 117 million trees saved each year resulting from WM's recycling practices
- 60% routed collection trucks that are natural gas vehicles

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Sources: Bloomberg, S&P