Waste Management (NYSE: WM)

Market Cap	Price	Yield	P/E	EV/EBITDA	ROE
61.6 Bn	$150.00	1.72%	27.6x	13.8x	33.2%

Business Overview:

Waste Management is North America’s leading provider of comprehensive waste management environmental services. Currently, the company serves more than 20 million residential, commercial, industrial, and municipal customers. The company primarily makes money through recurring revenue through contracts with municipalities, commercial, and industrial partners. The company has a vertically integrated business model in which they own the equipment required to collect garbage from customers, process garbage though transfer stations and recycling centers, and dispose of the garbage through landfills. New technology is allowing the company to extract methane from landfills, which could provide a new source of revenue for the company in the future.

Investment Thesis:

The company has the opportunity to grow in market share, along with emerging technologies that will make the company more efficient and sustainable. Not only can the company gain new contracts through residential and commercial waste disposal, but also through M&A activity. The company can also gain revenue by expanding recycling and sustainability capacities, and through new technologies in extracting methane from landfills.

Investment Risks:

Operational Risk:

- If the company fails to implement their business strategy, financial performance and growth could be materially and adversely affected.

Industry Risk:

- The environmental services industry is highly competitive, and if Waste Management cannot successfully compete in the market place, the business, financial condition and operating results may be materially adversely affected.

Compliance Risk:

- The company's operations are subject to environmental, health and safety laws and regulations, as well as contractual obligations that may result in significant liabilities.

Intrinsic Valuation

	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027
Revenue	$14,914	$15,455	$15,218	$17,931	$19,698	$21,210	$22,150	$23,313	$24,953	$26,328
% Growth	-	3.6%	-1.5%	17.8%	9.9%	7.7%	4.4%	5.3%	7.0%	5.5%
Cost of Goods Sold	$9,249	$9,496	$9,341	$11,111	$12,294	$13,137	$13,653	$14,454.12	$15,470.55	$16,323.36
% of Revenue	62.0%	61.4%	61.4%	62.0%	62.4%	61.9%	61.6%	62.0%	62.0%	62.0%
Gross Profit	$5,665	$5,959	$5,877	$6,820	$7,404	$8,073	$8,497	$8,859	$9,482	$10,005
% Margin	38.0%	38.6%	38.6%	38.0%	37.6%	38.1%	38.4%	38.0%	38.0%	38.0%
SG&A	$1,453	$1,588	$1,557	$1,787	$1,938	$2,057	$2,149	$2,261.37	$2,420.39	$2,553.82
% Margin	9.7%	10.3%	10.2%	10.0%	9.8%	9.7%	9.7%	9.70%	9.70%	9.70%
Other Expenses	-$4	-$79	-$8	$12	-$46	-$21	-$22	-$23	-$25	-$26
% Margin	0.0%	-0.5%	-0.1%	0.1%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
EBITDA	$4,216	$4,450	$4,328	$5,021	$5,512	$6,037	$6,370	$6,621	$7,087	$7,477
% Margin	28.3%	28.8%	28.4%	28.0%	28.0%	28.4%	28.7%	28.4%	28.4%	28.4%
D&A	$1,477	$1,574	$1,671	$1,999	$2,038	$2,038	$2,038	$2,215	$2,370	$2,501
% Margin	9.9%	10.2%	11.0%	11.1%	10.3%	9.6%	9.2%	9.5%	9.5%	9.5%
EBIT	$2,739	$2,876	$2,657	$3,022	$3,474	$3,999	$4,332	$4,406	$4,716	$4,976
% Margin	18.4%	18.6%	17.5%	16.9%	17.6%	18.9%	19.6%	18.9%	18.9%	18.9%
Tax Expense	$453	$434	$397	$532	$678	$840	$918	$881	$943	$995
% of EBIT	16.5%	15.1%	14.9%	17.6%	19.5%	20.0%	20.0%	20.0%	20.0%	20.0%
NOPAT	$2,286	$2,442	$2,260	$2,490	$2,796	$3,159	$3,414	$3,525	$3,773	$3,981
% Margin	15.3%	15.8%	14.9%	13.9%	14.2%	14.9%	15.4%	15.1%	15.1%	15.1%
D&A	$1,477	$1,574	$1,671	$1,999	$2,038	$2,038	$2,038	$2,215	$2,370	$2,501
Capex	$1,694	$1,818	$1,632	$1,904	$2,587	$2,757.30	$2,436.50	$2,564.44	$2,744.78	$2,896.08
% Margin	11.4%	11.8%	10.7%	10.6%	13.1%	13.0%	11.0%	11.0%	11.0%	11.0%
Change in NWC	-$15	$70	-$380	$92	-$145	-$42.4	$44.3	-$46.6	$49.9	-$52.7
% Margin	-0.1%	0.5%	-2.5%	0.5%	-0.7%	-0.2%	0.2%	-0.2%	0.2%	-0.2%
Unlevered Free Cash Flow	$2,084	$2,128	$2,679	$2,493	$2,392	$2,482	$2,971	$3,222	$3,349	$3,639
% Margin	14.0%	13.8%	17.6%	13.9%	12.1%	11.7%	13.4%	13.8%	13.4%	13.8%

Exit Multiple	
WACC	7.0%
Exit EV/EBITDA	13.0
Terminal Value	$97,203
PV of Terminal Value	$69,304
Pv of Cash Flows	$12,694
Enterprise Value	$81,998
Total Debt (-)	$14,984
Cash (+)	$351
Equity Value	$67,365
Shares Outstanding	410.5
Implied Share Price	$164.11
Current Share Price	$152.40
Margin of Saftey	7.68%

Sensitivity Analysis

Sensitivity Analysis						
		WACC				
		8.00%	7.50%	7.00%	6.50%	6.00%
Perpetual Growth Rate	4.00%	$151.26	$178.30	$214.36	$264.85	$340.59
	3.50%	$133.16	$154.60	$182.16	$218.92	$270.39
	3.00%	$118.69	$136.16	$158.01	$186.11	$223.58
	2.50%	$106.84	$121.41	$139.22	$161.50	$190.15
	2.00%	$96.97	$109.34	$124.20	$142.36	$165.07

Relative Valuation

WM Financial Metrics			
Current Price	$152.77	EBITDA	$5,512
Shares	408.2	EBIT	$3,474
Debt	$14,984	Net Income	$2,238
Cash	$351.0		

Company	Price ($/share)	EV/EBITDA (Trailing)	P/E (Trailing)
Republic Services	$127.13	13.67	26.2
Casella Waste Systems	$80.65	21.34	71.06
Clean Harbors	$134.36	9.99	19.74
Heritage-Crystal Clean	$38.50	7.58	11.99
Harsco Corp	$8.27	7.81	0
Stericycle	$55.21	18.58	97.83
Average		13.16	37.80

WM Comps Analysis						
Metric	Multiple	EV	Net Debt	Equity Value	Shares	Implied Price
EV/EBITDA	13.90	$76,617	$14,984	$61,633	408.2	**$150.99**
P/E	37.80	$99,588	$14,984	$84,604	408.2	**$207.26**