



Waste Management, Inc. (WM)

Updated April 26th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$210	5 Year CAGR Estimate:	5.5%	Market Cap:	\$85 B
Fair Value Price:	\$160	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	05/31/24
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date¹:	06/17/24
Dividend Yield:	1.4%	5 Year Price Target	\$257	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Waste Management is North America's leading provider of environmental solutions. The company provides waste collection, transfer, recycling, and disposal services to a diverse customer lineup including residential, commercial, industrial, and municipal customers. The company also owns and operates landfill gas-to-energy facilities in the U.S. The \$85 billion market cap company generated \$20 billion in revenue last year. Waste Management acquired Advanced Disposal Services for \$4.9 billion in October of 2020.

In February 2024, Waste Management raised its dividend to \$3.00 annually, which marks its 21st consecutive annual increase.

On April 24th, 2024, Waste Management reported first quarter 2024 results for the period ending March 31st, 2023. For the quarter, the company generated revenue of \$5.2 billion, a 5.5% increase compared to Q1 2023. Adjusted net income equaled \$706 million or \$1.75 per share compared to \$535 million or \$1.31 per share in the prior year quarter.

Collection and disposal volumes declined by just 0.1% in first quarter.

During the quarter, Waste Management repurchased \$250 million of common stock. The company also returned \$307 million to shareholders in the form of cash dividends.

Waste Management updated its 2024 guidance and now expects revenue to grow 5.5% to 5.75% (down from 6% to 7% previously).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.48	\$2.53	\$2.91	\$3.22	\$4.20	\$4.40	\$4.03	\$4.84	\$5.59	\$6.19	\$7.25	\$11.68
DPS	\$1.50	\$1.54	\$1.64	\$1.70	\$1.86	\$2.05	\$2.18	\$2.30	\$2.60	\$2.80	\$3.00	\$3.83
Shares²	459	447	439	433	424	428	425	423	415	407	403	375

In the 2008 through 2019 stretch, Waste Management grew its earnings-per-share by 6.5% annually. In 2020 results declined -8% amid the COVID-19 pandemic, however earnings bounced back materially in 2021 and soared in 2022 and 2023.

Waste Management operates in an industry dominated by only a few competitors, which lends the company pricing power. It also has the opportunity to grow through higher volumes, due to population growth and new customer additions. Thanks to the consistency of its business model and industry leadership position, Waste Management has the ability to retain key customers while attracting new customers. As a counterpoint to this, the waste disposal industry in the U.S. is saturated. Still, the company certainly stands to collect its "fair share" of industry growth and price increases over time. Moreover, acquisitions along the way, such as Advanced Disposal Services, should assist growth.

We expect earnings growth to continue into 2024 and beyond as the company makes investments on high-return growth projects in recycling and renewable energy, grows volumes, improves automation, and repurchases shares. We

¹ Estimate

² In millions.

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are forecasting 10% annual earnings growth over the next five years, implying the expectation of \$11.68 in earnings-per-share by 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.2	20.4	21.3	23.4	20.7	24.8	27.5	28.3	28.4	26.2	29.0	22.0
Avg. Yld.	3.3%	3.0%	2.6%	2.3%	2.1%	1.9%	2.0%	1.7%	1.5%	1.7%	1.4%	1.5%

Over the past decade, shares of Waste Management have traded hands with an average P/E ratio of nearly 24 times earnings. We believe that shares tend to trade at a premium not necessarily as a result of extraordinary growth expectations, but instead due to the company's strong brand, industry leadership position and recession-resistant business model – a "safe haven," if you will. Still, even if growth does formulate in the years to come, the current valuation of 29.0 times expected earnings could be a meaningful drag on future returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	60%	61%	56%	53%	44%	47%	54%	48%	47%	45%	41%	33%

Waste Management scores well in terms of safety and quality. The company enjoys a wide economic "moat," in that it provides a necessary service, and it is the largest operator in an industry that is highly regulated.

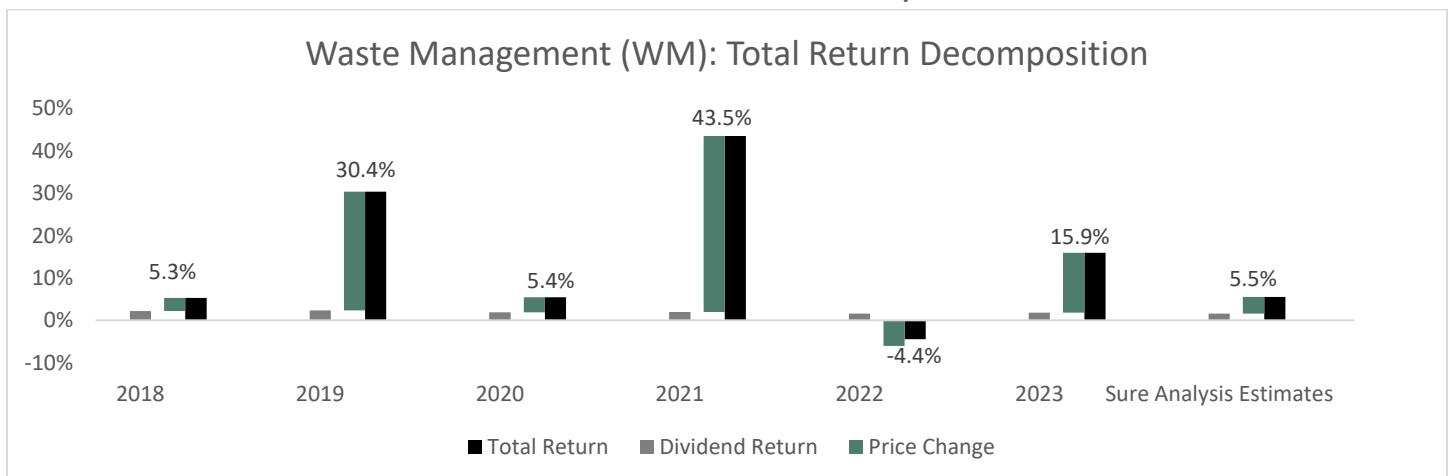
The company should also perform reasonably well in the next recession, as people still require waste disposal services in good times or bad. During the last recession, Waste Management posted earnings-per-share of \$2.19, \$2.00, \$2.10, and \$2.14 during the 2008 through 2011 stretch. Moreover, the dividend kept on increasing as well. In the COVID-19 crisis, earnings fell -8% but were still resilient. Likewise, the dividend continues to increase.

As of the most recent quarterly report Waste Management held \$322 million in cash, \$3.5 billion in current assets and \$32.7 billion in total assets against \$3.9 billion in current liabilities and \$25.6 billion in total liabilities. Long-term debt stood at \$15.8 billion.

Final Thoughts & Recommendation

Waste Management is a high-quality business. The business has a steady growth runway and ranks well for consistency and performance even through recessions. Annualized total return potential of 5.5%, stemming from 10% EPS growth and the 1.4% dividend yield, partly offset by a potential valuation headwind, has us reiterating our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	13996	12961	13609	14485	14914	15455	15220	17931	19698	20430
Gross Profit	4994	4730	5123	5464	5665	5959	5877	6820	7404	7820
Gross Margin	35.7%	36.5%	37.6%	37.7%	38.0%	38.6%	38.6%	38.0%	37.6%	38.3%
SG&A Exp.	1440	1307	1370	1426	1400	1593	1674	1827	1888	1870
D&A Exp.	1292	1245	1301	1376	1477	1574	1671	1999	1284	1326
Operating Profit	2221	2142	2412	2620	2735	2754	2478	2957	3428	3823
Op. Margin	15.9%	16.5%	17.7%	18.1%	18.3%	17.8%	16.3%	16.5%	17.4%	18.7%
Net Profit	1298	753	1182	1949	1925	1670	1496	1816	2238	2304
Net Margin	9.3%	5.8%	8.7%	13.5%	12.9%	10.8%	9.8%	10.1%	11.4%	11.3%
Free Cash Flow	1180	1295	1664	1671	1876	2056	1771	2434	1949	1824
Income Tax	413	308	642	242	453	434	397	532	678	745

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21297	20367	20859	21829	22650	27743	29340	29097	31367	32820
Cash & Equivalents	1307	39	32	22	61	3561	553	118	351	458
Acc. Receivable	1587	1549	1700	1805	1931	1949	2097	2278	2461	2633
Inventories	106	92	90	96	102	106	124	135	164	173
Goodwill & Int.	6180	6461	6806	6794	7002	7053	10020	9926	10150	10010
Total Liabilities	15408	15000	15539	15787	16374	20673	21890	21971	24503	25930
Accounts Payable	740	721	799	1040	1037	1065	1121	1375	1766	1709
Long-Term Debt	9435	8929	9310	9491	10026	13498	13810	13405	14984	16230
Total Equity	5866	5345	5297	6019	6275	7068	7452	7124	6849	6903
LTD/E Ratio	1.61	1.67	1.76	1.58	1.60	1.91	1.85	1.88	2.19	2.35

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	3.6%	5.7%	9.1%	8.7%	6.6%	5.2%	6.2%	7.4%	7.2%
Return on Equity	22.4%	13.4%	22.2%	34.4%	31.3%	25.0%	20.6%	24.9%	32.0%	33.5%
ROIC	8.2%	5.1%	8.2%	12.9%	12.1%	9.1%	7.2%	8.7%	10.6%	10.3%
Shares Out.	459	447	439	433	424	428	425	423	415	407
Revenue/Share	30.06	28.43	30.48	32.78	34.51	36.15	35.80	42.40	47.47	50.20
FCF/Share	2.53	2.84	3.73	3.78	4.34	4.81	4.17	5.76	4.70	4.48

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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