

# STOCK BROS

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**RESEARCH REPORT**



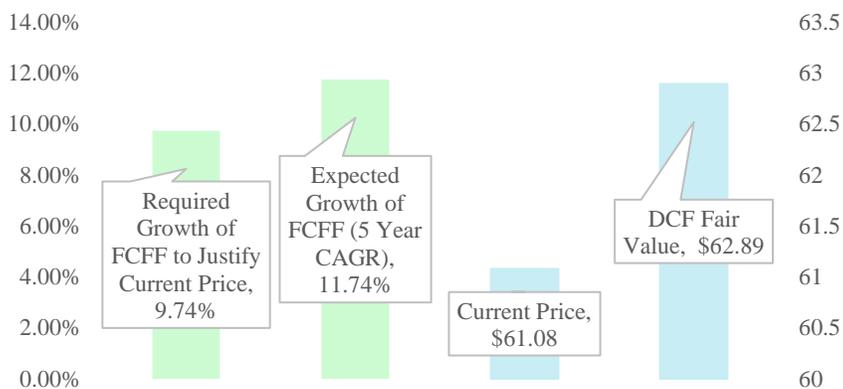
**Equity Research  
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# US ECOLOGY, INC. (ECOL:NYSE) - Published July 6th, 2019 as a Sample Only

## Discounted Cash Flow Analysis



## Company Description

US Ecology, Inc is a waste management company that provides environmental services to commercial and government entities in the United States, Canada, and Mexico. It operates through two segments, Environmental Services, and Field & Industrial Services. With 1,700 employees, it serves oil refineries, chemical production plants, steel mills, real estate developers, waste brokers/aggregators serving small manufacturers, and other industrial customers.

## Catalysts & Key Points

Analysts are predicting straight line fundamental growth for US Ecology Inc to the point where we have seen valuations as high as \$80/share. Historically, the company has not grown in a straight line at all and we have no reason to believe it will. By factoring in the quarterly seasonalities of this business with the increased possibility of a recession, we arrive a much more conservative valuation of \$62.94.

We do not recommend this company as a buy because there is not a large enough margin of safety, dividend yield (1.22%) or EVA to justify an investment in this stock.

## Assumptions Used in Discounted Cash Flow Forecast

The following metrics were forecasted using the Holt-Winters method with adjustments made where deemed necessary: Revenue, COGS, SG&A, D&A, NOWC, CAPEX, other non-operating income.

A tax rate of 27% was assumed based on management's guidance.

A weighted average cost of capital of 6% was used to discount the future cash flows.

We assumed that unlevered free cash flow will not grow in a straight line hence the use of the holt-winters method above.

## Company Health

1. Company Margins are **positive** and **good**
2. Current FCF's are **positive**
3. Company **can** cover its short term liabilities with current assets
4. Company **can** cover its long term liabilities with current assets



### Income Statement

Gross Margin 29.41%  
EBITDA Margin 21.28%  
EBIT Margin 13.27%  
Profit Margin 8.39%



### Free Cash Flow

Free Cash Flow \$31,670,000  
Levered FCF \$90,790,000  
Unlevered FCF \$41,410,000



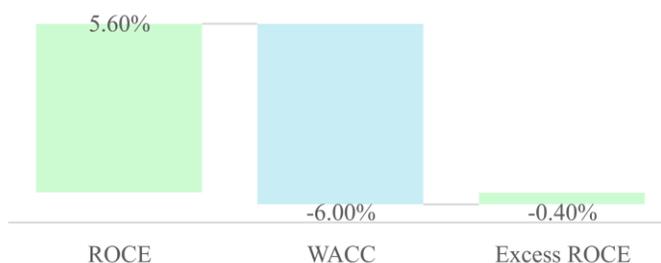
### Balance Sheet

Price to Tangible Book -10.89  
Total Debt to Equity 98.37%  
Current Ratio 2.13  
Quick Ratio 2.0  
Cash on Hand \$16,120,000

## Management Efficiency

1. Management has **not** been efficient at managing capital as return on capital employed (ROCE) is **less than** the weighted average cost of capital (WACC).
2. Economic value added (EVA) is **negative**. (EVA is a measure of a company's true economic profit)

### Return on Capital Employed vs. Weighted Average Cost of Capital

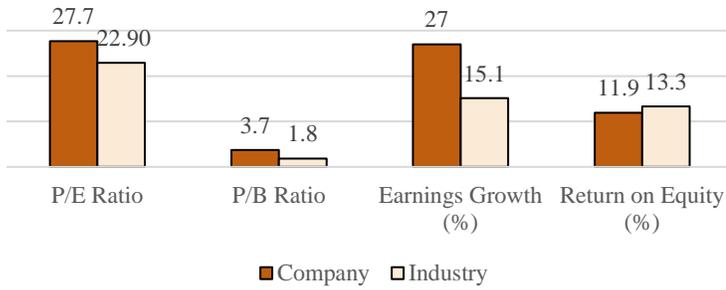


### True Economic Profit (Economic Value Added)



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## Company vs Industry Averages



## Company vs Industry Analysis

1. Industry comparison chart score: 1/4
2. Company's price to earnings ratio is **greater** than it's expected earnings growth which is known as the PEG ratio (price to earnings to growth ratio). A PEG ratio of less than 1 (P/E divided by growth) indicates that the stock is potentially undervalued.
3. Industry PEG ratio is **greater** than 1.
4. US Ecology Inc. is likely to outperform the industry in terms of earnings growth

## Risk Analysis

1. Overall risk profile of the company is **with mixed results**.
2. Company earnings are likely to be **correct** and **trustworthy** based on the Beneish M-Score which is used to determine if a company is manipulating it's earnings with fraudulent behaviour. A score that is less than -2.22 means the company is not a manipulator whereas a greater score indicates the possibility for fraudulent activities.
3. The standard deviation we use is measured using the annualized negative returns in the last 200 trading days. Currently, the downside risk of the company is **11%** which is **more** than its potential upside of **3%** that is based on the intrinsic value.
4. The bankruptcy risk is measured using the Ohlson O-Score which we then adjust for its accuracy rate of 90% .

### Earnings Quality Risk

Beneish M-Score  
-2.4

Not an Earnings Manipulator

### Downside Risk

Standard Deviation  
11%

Bankruptcy Risk  
2%

## Debt Schedule

There is no debt due to mature until 2022 which is good news considering that US Ecology Inc only has about \$16 million in cash and cash equivalents. This will allow the company to reinvest its free cash flow wherever it deems necessary.

<u>\$s in thousands</u>	<u>Maturities</u>
2019	\$ —
2020	—
2021	—
2022	364,000
2023	—
Thereafter	—
	<u>\$ 364,000</u>



Price Target for Next Quarter  
**\$59.28**

We are expecting earnings per share for the next quarter to be around **\$0.55** per share. If correct, the trailing 12 month EPS for next quarter will be **\$2.14**. Assuming a P/E of **27.7**, we arrive at our target price.

## 3Yr Historical vs 3Yr Forecasts (Millions)

