



Waste Management Bullish Positions as Recession Proof Business

Ticker/Price: WM (\$99.85)

Analysis:

Waste Management (WM) with buyers on Friday of 785 October \$105 calls for around \$7.00 and follows 1,000 October \$65 puts sold to open earlier in the week. WM has been popular with short puts including the July \$120 and \$115 strikes from Feb/March that are underwater. Shares pulled back to the 200-week MA and basing over the last month. Friday's close put shares back above their 20-day MA and above \$104 has room to run back to \$115 and a high-volume node from early March. VWAP from the February highs is at \$103 and YTD VWAP is above at \$107.25. The \$42.4B company trades 22X earnings and 2.7X sales with a 2% yield. They have over \$3.5B in cash on hand, strong FCF, a Current Ratio of 2X and Net Debt/ EBITDA of 2.3X. Waste collection is likely one of the more resilient areas given their focus on long-term contracts and WM has been operating without disruption as collection deemed an essential service. They likely see some commercial volumes dip due to closures they'll be offset by higher volumes in healthcare waste solutions while residential also likely higher-than-normal as people shelter-in-place. Also, WM is more landfill-forward than peers and 'special waste' is 30% of landfill volumes while their exposure to energy is only around 1%, less than others. WM is waiting for the closure of their deal for ADSW and now pushed out to mid-to-late Q2. They anticipate DOJ approval soon. Analysts have an average target for shares of \$122. RBC downgrading to Neutral on 4-9 as they think COVID-19 will have an impact on commercial and industrial volumes, with residential experiencing a slight benefit. BMO positive on 3-31 as waste companies may be better positioned than other businesses to withstand the downturn and WM a standout given the company's strong balance sheet and free cash flow generation providing "more than adequate protection." UBS upgrading to Buy on 3-4 citing the companies' free cash flow yield spread relative to the 10-year Treasury rate. OpCo upgrading to Buy on 2-28 behind pricing discipline, margin resiliency, healthy free cash flow generation and opportunistic M&A. Short interest is 0.9%. Hedge fund ownership fell 4%. Valinor a buyer of 550k shares, a new 4% position.

Hawk Vision:



Hawk's Perspective: WM triggered a breakout of its base last week and remains a very strong business and one of the safer names to own longer term.

Confidence Ranking: \$\$