

# COVANTA HOLDING NYSE-CVA

RECENT PRICE **26.61** P/E RATIO **28.0** (Trailing: 26.4 Median: NMF) RELATIVE P/E RATIO **1.78** DIV'D YLD **Nil** VALUE LINE

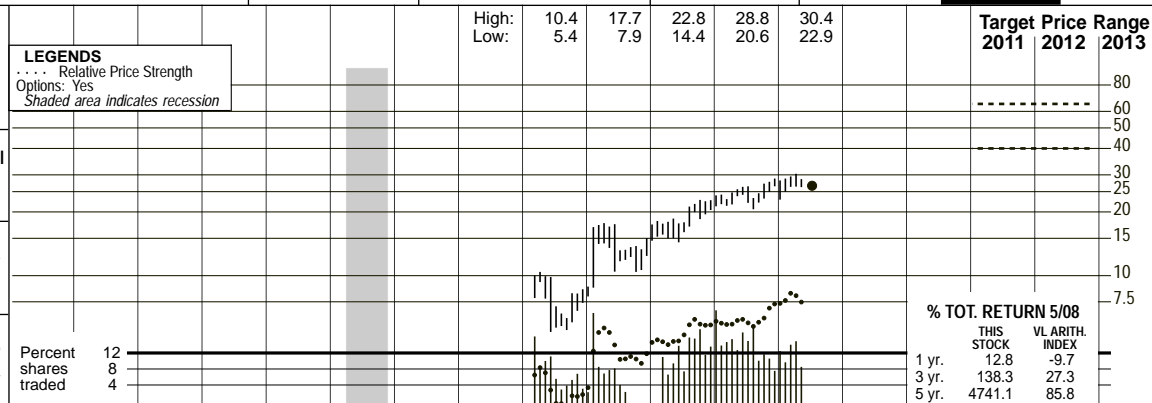
**TIMELINESS** 2 Lowered 6/20/08  
**SAFETY** 4 New 4/7/06  
**TECHNICAL** 3 Lowered 6/20/08  
**BETA** 1.25 (1.00 = Market)

**LEGENDS**  
 ... Relative Price Strength  
 Options: Yes  
 Shaded area indicates recession

**2011-13 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 65 (+145%) 25%  
 Low 40 (+50%) 10%

**Insider Decisions**  
 A S O N D J F M A  
 to Buy 1 0 0 0 0 0 0 0 0 0  
 Options 1 0 1 0 0 0 0 0 0 0  
 to Sell 1 0 3 0 0 0 0 1 1 0

**Institutional Decisions**  
 3Q2007 4Q2007 1Q2008  
 to Buy 90 113 102  
 to Sell 109 78 87  
 Hld's(000) 113182 116435 116674



On March 10, 2004, Danielson Holding Corporation acquired Covanta Energy for \$30 million in cash. Prior to the merger, Danielson operated as an insurance firm, and it traded on the American Stock Exchange under the ticker "DHC". Following the purchase, Covanta's operations became the firm's primary business. In September 2005, the company was renamed Covanta Holding Corporation, and in October the stock began trading on the New York Stock Exchange under the ticker symbol "CVA".

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
Revenues per sh	--	--	--	--	--	--	7.85	6.93	8.60	9.31	9.95	10.30	12.65	
"Cash Flow" per sh	--	--	--	--	--	--	1.19	1.32	1.91	2.26	2.25	2.45	3.30	
Earnings per sh <sup>A</sup>	--	--	--	--	--	--	.37	.48	.60	.99	.95	1.15	1.90	
Div'ds Decl'd per sh	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Nil	
Cap'l Spending per sh	--	--	--	--	--	--	1.16	.17	.37	.56	.63	.67	.90	
Book Value per sh <sup>D</sup>	--	--	--	--	--	--	1.84	4.24	5.01	6.67	8.10	10.25	16.45	
Common Shs Outst'g <sup>C</sup>	--	--	--	--	--	--	73.43	141.25	147.50	153.92	158.00	165.00	170.00	
Avg Ann'l P/E Ratio	--	--	--	--	--	--	20.9	28.1	30.7	24.6	Bold figures are Value Line estimates		27.0	
Relative P/E Ratio	--	--	--	--	--	--	1.10	1.50	1.66	1.30			1.80	
Avg Ann'l Div'd Yield	--	--	--	--	--	--	--	--	--	--			Nil	
Revenues (\$mill)	--	--	--	--	--	--	576.2	978.8	1268.5	1433.1	1575	1700	2150	
Operating Margin	--	--	--	--	--	--	22.6%	34.8%	37.9%	33.9%	31.8%	33.5%	38.0%	
Depreciation (\$mill)	--	--	--	--	--	--	53.3	124.9	193.2	197.0	195	205	225	
Net Profit (\$mill)	--	--	--	--	--	--	34.1	61.2	88.8	151.5	150	190	330	
Income Tax Rate	--	--	--	--	--	--	32.5%	43.6%	45.4%	22.5%	40.0%	45.0%	45.0%	
Net Profit Margin	--	--	--	--	--	--	5.9%	6.3%	7.0%	10.6%	9.5%	11.2%	15.5%	
Working Cap'l (\$mill)	--	--	--	--	--	--	212.5	233.4	342.8	303.4	370	595	530	
Long-Term Debt (\$mill)	--	--	--	--	--	--	593.5	2684.7	2469.4	2097.2	1700	1510	1125	
Shr. Equity (\$mill)	--	--	--	--	--	--	134.8	599.2	739.2	1026.1	1280	1690	2800	
Return on Total Cap'l	--	--	--	--	--	--	7.7%	4.0%	5.5%	6.6%	5.0%	6.0%	8.5%	
Return on Shr. Equity	--	--	--	--	--	--	25.3%	10.2%	12.0%	14.8%	11.5%	11.5%	12.0%	
Retained to Com Eq	--	--	--	--	--	--	25.3%	10.2%	12.0%	14.8%	11.5%	11.5%	12.0%	
All Div'ds to Net Prof	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Nil	

**CAPITAL STRUCTURE as of 3/31/08**  
 Total Debt \$2245 mill. Due in 5 Yrs \$846 mill.  
 Inc. \$1227 mill. of project debt.  
 LT Debt \$2043 mill. LT Interest \$93 mill.  
 (LT interest earned: 2.6x; total interest coverage: 1.5x) (67% of Cap'l)  
 Leases, Uncapitalized: Annual rentals \$36.8 mill.  
 Pension Assets-12/07 \$61.6 mill.  
 Oblig. \$72.9 mill.

**Pfd Stock** None  
**Common Stock** 154,241,952 shs.  
**as of 4/16/08**  
**MARKET CAP: \$4.1 billion (Mid Cap)**

CURRENT POSITION (\$MILL.)	2006	2007	3/31/08
Cash Assets	240.5	151.9	126.9
Receivables	209.3	252.1	244.8
Inventory (Avg Cst)	--	--	--
Other	353.8	391.0	417.7
Current Assets	803.6	795.0	789.4
Accts Payable	20.2	29.9	39.4
Debt Due	226.7	202.5	201.5
Other	213.9	259.2	237.6
Current Liab.	460.8	491.6	478.5

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	--	--	7.5%
"Cash Flow"	--	--	10.5%
Earnings	--	--	18.5%
Dividends	--	--	Nil
Book Value	--	--	21.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2005	174.8	199.1	301.5	303.4	978.8
2006	305.4	334.1	311.1	317.9	1268.5
2007	330.2	355.1	352.4	395.4	1433.1
2008	388.8	390	395	401.2	1575
2009	410	420	430	440	1700

Cal-endar	EARNINGS PER SHARE <sup>A B</sup>				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2005	.10	.05	.16	.16	.48
2006	.08	.23	.21	.08	.60
2007	.08	.21	.24	.45	.99
2008	.10	.24	.29	.32	.95
2009	.25	.29	.30	.31	1.15

Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004					
2005					
2006					
2007					
2008					
2009					

NO CASH DIVIDENDS BEING PAID

**BUSINESS:** Covanta Holding Corp is engaged in waste disposal, energy services, and specialty insurance. Through its wholly owned subsidiary, Covanta Energy, it operates waste-to-energy facilities that convert municipal waste into clean, renewable energy. Auto insurance is provided via another subsidiary, National American Insurance Company of California. Acquired American Ref-Fuel Hold-

ings Corp. (6/05); Covanta Energy (3/04). Has about 3,500 emplys. SZ Investments owns 15.0% of common stock; Third Ave. Mgmt. LLC, 5.7%; Wellington Mgmt. Co., 5.6%; Blue Ridge L.P., 5.2%; Chrmn. Samuel Zell, 15.1%; other off. & dir., 7.0% (5/08 Proxy). Pres. & CEO, Anthony J. Orlando. Addr.: 40 Lane Rd., Fairfield, NJ 07004. Tel.: 973-882-9000. Internet: www.covantaholding.com.

**Covanta's first-quarter share earnings of \$0.10 fell well short of our estimate of \$0.26.** Although 2007 ended on a high note, this did not carry over into the new year. The March quarter is seasonably weak, because of the timing of annual plant maintenance, but we believe increased business should have made up for these elevated costs.

important factor that should help earnings is the company's shrinking debt burden. Covanta has been using its ample cash flow to pay down its borrowings, reducing interest expense in the process.

**Management expects better results for the remainder of the year.** Earnings guidance stands at \$0.90-\$1.00 for the full year, which suggests that bottom-line performance will improve. It is worth noting, however, that the company will be facing difficult comparisons at the end of the year, since 2007's fourth-quarter earnings were exceptionally strong. All told, we think earnings per share will total \$0.95, a modest decline from last year's tally.

**This stock is timely.** CVA carries an Above-Average (2) ranking for year-ahead price performance relative to the broad market averages. **We think these shares should also appeal to long-term investors with aggressive leanings.** Covanta's business outlook appear solid, since the company offers solutions to two public concerns (waste disposal and power generation). Thus, this stock's 3- to 5-year capital growth potential is above average. However, we point to the Below-Average Safety rank (4), as well as the poor marks for Financial Strength and Price Stability, as signs that this stock may be ill-suited for conservative accounts.

**We have trimmed a dime per share off our 2009 earnings estimate.** We do not think margins will be able to expand to the previously expected level. Our top-line estimate is unchanged, but our model now assumes a lower level of profitability. Even so, the bottom line may well grow at a 20%-25% clip, to \$1.15 per share. An im-

Tom Nikic July 4, 2008

CASH POSITION	3-Year Av'g	3/31/08
Current Assets to Current Liabilities:	162%	165%
Cash & Equiv's to Current Liabilities:	38%	27%
Working Capital to Sales:	24%	20%

(A) Diluted earnings. Excludes nonrecurring items: '05, (2c); '06, 12c; '07, (14c). Next egs. report due late July.

(B) 2005 earnings per share do not sum due to change in shares outstanding.  
 (C) In millions.

(D) Includes intangibles. In '07: \$216.0 mill., \$1.40/share.

Company's Financial Strength	C++
Stock's Price Stability	15
Price Growth Persistence	NMF
Earnings Predictability	NMF

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