Ritchie Bros. Auctioneers Inc. (RBA)

Updated November 17th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$6.9 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	11/24/2020
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	12/16/2020
Dividend Yield:	1.3%	**5 Year Price Target**	$98	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	10.0%

Overview & Current Events

Ritchie Bros. offers end-to-end solutions for buying and selling used heavy equipment, trucks, and other assets. The company's primary selling channels include Ritchie Bros. Auctioneers, the world's largest industrial auctioneer featuring online bidding, IronPlanet, an online marketplace with weekly auctions, and IronClad Assurance, which provides equipment condition certification. The company has a market cap of $6.9 billion, generates around $1.3 billion in annual revenues, and is based in Burnaby, Canada. Investors can trade its shares both on the TSX and NYSE. All figures in this report are in $US.

On November 5th, 2020, Ritchie Bros. reported its Q3 2020 results for the period ending September 30th, 2020. For the quarter, revenue increased by 14%, to $331.5 million, primarily as a result of increased sales volumes in online auctions. GTV (Gross Transaction Value) increased by 22% to $1.3 billion, showcasing strong demand for the company's intermediary online services. Further, EPS increased by 78% to $0.41 due to lower proportional expenses amid achieving economies of scale and lower interest expenses due to a reduction of its debt levels (-7.3% lower YoY to $622 million.)

On October 28th, 2020, the company agreed to acquire Rouse Services, a privately held firm that provides data intelligence and performance benchmarking for approximately $275 million to further enhance its auctioning services. Overall, the company is seeing great momentum over the past few years as it revolutionizes industrial auctions. While the company was mostly focused on growing its revenues, profitability acceleration has only now started to really pick up. As a result, management accelerated dividend growth this year, with its latest bump by a considerable 10.0%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.62	$0.72	$0.75	$0.88	$0.85	$1.27	$0.86	$0.70	$1.12	$1.37	***$1.69***	***$2.98***
DPS	$0.42	$0.44	$0.48	$0.51	$0.55	$0.62	$0.67	$0.68	$0.71	$0.78	***$0.84***	***$1.35***
Shares[1]	105.5	106.2	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5	***108.8***	***110.0***

Despite Ritchie Bros. consistently growing revenues over the past decade, profitability had lagged around 2016-2019, as the company was reinvesting towards growth. Based on its previous quarters, the company could end FY2020 with an EPS of around $1.69. We forecast EPS growth of around 12% over the medium term. This figure is lower than Ritchie's past revenue growth, but it is still a solid clip. The company can benefit from economies of scale and synergies amongst its services (for example, certification provision before auction listing and vertical integration).

Additionally, due to profitability improving drastically, management accelerated its dividend growth recently. Dividend growth had fallen to as low as 3% in 2017, in line with stagnating EPS. In conjunction with this year's 10% dividend jump, we expect the dividend to grow by 10% over the medium term, comfortably supported by the company's underlining net income.

Ritchie Bros. has been growing its dividends annually without any exception since 2004, marking a 16-year dividend growth record.

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[1] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	27.5	31.7	26.3	26.4	27.9	30.6	25.0	25.8	43.7	31.2	***37.4***	***33.0***
Avg. Yld.	1.5%	2.0%	2.2%	2.6%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	***1.3%***	***1.4%***

Ritchie Bros' valuation has been incredibly consistent over the years, hovering from 25x to 30x its net income. As EPS growth has picked up due to the company scaling its platforms, shares are currently trading near an all-time high P/E of 37.4. We believe that recent valuation expansion is reasonable as investors attempt to capture Ritchie's improving performance, though we expect the stock's P/E to return to around 33 in the medium term; pricing in the possibility of a slowdown in growth going forward.

Shares have historically traded with a yield of around 2%, though the recent rally has resulted in shares currently offering a 12-year low yield of just 1.3%. We expect RBA's yield to remain relatively low in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	67.7%	61.1%	64.0%	58.0%	64.7%	48.8%	77.9%	97.1%	63.4%	56.9%	49.7%	***45.4%***

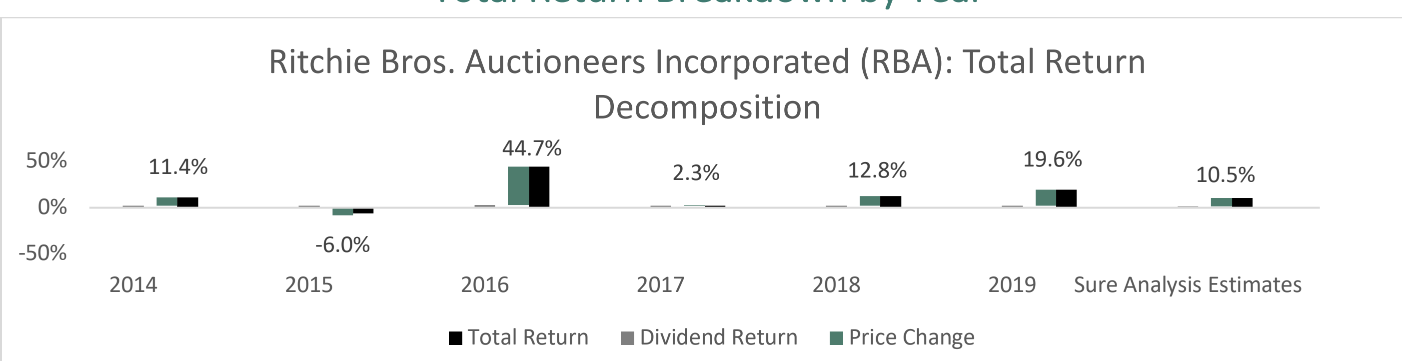
Ritchie Bros.' dividend coverage remains quite healthy. Despite the recent acceleration in dividend growth, the stock's payout ratio based on the company's expected FY2020 EPS is below 50%.

The company is the largest industrial-equipment auctioneer in the world, holding a significant competitive advantage due to its long-term expertise in the sector and the wide network effect of its online participants. Additionally, while its business model sounds sensitive to the industrial sector's cyclicality, the company is benefiting during such times as more equipment is brought forward to be auctioned (e.g., amid a company's liquidation), increasing its fees. During the Great Financial Crisis, for example, the company continued to enjoy revenue growth, despite the overall challenges in the economy. Hence, the company should remain resilient during a potential recession, enjoying robust cash flows.

Final Thoughts & Recommendation

Ritchie Bros. has been offering investors consistent, low volatility returns over the past couple of decades, featuring a well-managed dividend growth record. The company's solid top and bottom line during the pandemic, which adversely affected the overall industrial sector, is a testament to its resiliency. Combined with EPS enjoying growth acceleration and a promising acquisition on the way, shares have more than doubled since their March's lows. Still, we believe that shares are offering investors the potential for double-digit returns in the medium term, which we estimate to be around 10.5% on an annualized basis. While this could be too ambitious with a lower P/E multiple, shares earn a buy rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	357	396	438	467	481	516	1,127	971	1,170	1,319
Gross Profit	310	348	388	413	423	460	500	532	637	673
Gross Margin	86.8%	87.9%	88.7%	88.4%	88.0%	89.1%	44.4%	54.7%	54.4%	51.0%
SG&A Exp.	181	202	227	244	248	254	284	323	383	382
D&A Exp.	38	42	41	43	45	42	41	53	67	83
Operating Profit	92	108	119	126	130	163	176	156	187	220
Operating Margin	25.6%	27.3%	27.2%	27.0%	27.1%	31.7%	15.6%	16.0%	16.0%	16.7%
Net Profit	66	77	80	94	91	136	92	75	121	149
Net Margin	18.4%	19.3%	18.2%	20.0%	18.9%	26.4%	8.1%	7.7%	10.4%	11.3%
Free Cash Flow	(22)	64	72	95	110	166	141	108	101	292
Income Tax	25	31	32	40	36	38	37	2	31	42

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	873	967	1,132	1,162	1,122	1,120	1,600	2,017	2,052	2,229
Cash & Equivalents	68	109	178	234	140	210	208	268	238	360
Accounts Receivable	60	33	46	61	61	50	45	78	113	122
Inventories	27	49	61	52	43	58	28	38	113	65
Goodwill & Int. Ass.	46	46	110	121	128	138	170	932	917	906
Total Liabilities	293	349	476	468	430	413	908	1,273	1,217	1,322
Accounts Payable	88	22	34	31	47	38	39	78	93	73
Long-Term Debt	137	146	240	182	119	110	620	820	731	650
Shareholder's Equity	580	618	657	694	692	703	687	740	831	902
D/E Ratio	0.24	0.24	0.37	0.26	0.17	0.16	0.90	1.11	0.88	0.72

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.6%	8.3%	7.6%	8.2%	8.0%	12.2%	6.8%	4.1%	6.0%	7.0%
Return on Equity	11.7%	12.8%	12.5%	13.9%	13.1%	19.5%	13.2%	10.5%	15.5%	17.2%
ROIC	9.4%	10.3%	9.6%	10.6%	10.8%	16.7%	8.6%	5.2%	7.8%	9.5%
Shares Out.	105.5	106.2	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5
Revenue/Share	3.37	3.70	4.10	4.36	4.47	4.80	10.49	8.98	10.70	12.01
FCF/Share	(0.21)	0.60	0.67	0.89	1.02	1.54	1.31	1.00	0.93	2.66

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