McGrath RentCorp (MGRC)

Updated February 25th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	3.9%	**Market Cap:**	$1.87 billion
Fair Value Price:	$72	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	4/14/2021
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	4/30/2021
Dividend Yield:	2.3%	**5 Year Price Target**	$84	**Years Of Dividend Growth:**	30
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	3.6%

McGrath RentCorp is a leading business-to-business rental and sales company that provides portable buildings for use as classrooms, office space and places to test electronic equipment. The company's products can also be used as secure storage for both hazardous and non-hazardous materials, restrooms, health care and child care facilities. Many of McGrath's portable buildings are used to meet a variety of demands and can be moved easily from location to location.

McGrath RentCorp announced fourth quarter and full year earnings results on 2/23/2021. For the quarter, revenue grew 1.2% to $149 million, beating estimates by $5.8 million. Earnings-per-share of $1.27 was 18.7% higher than the prior year and $0.13 better than expected. For the year, revenue of $572.6 million was essentially flat. Earnings-per-share grew 5.9% to $4.16, easily beating our estimate by $0.42.

For the quarter, rental revenues fell 4% to $88.5 million. Revenues for Mobile Modular, the company's largest division, decreased 2% due to weakness in commercial and education end markets. TRS-RenTelco rental revenues improved 1% due continued strength in general purpose test equipment. Adler Tanks rental revenues were lower by 18% due to ongoing weakness in oil and gas end-markets due to disruptions related to COVID-19.

McGrath RentCorp expects revenue for 2021 in a range of $560 million to $595 million. Analysts expect earnings-per-share of $4.10 for the year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.00	$1.78	$1.67	$1.73	$1.59	$1.60	$2.12	$3.24	$3.93	$4.16	***$4.10***	***$4.75***
DPS	$0.92	$0.94	$0.96	$0.98	$1.00	$1.02	$1.04	$1.28	$1.50	$1.64	***$1.74***	***$2.02***
Shares[1]	25	25	26	26	24	24	24	24	25	24	***25***	***25***

McGrath RentCorp has experienced volatility in its earnings-per-share over the past decade. Earnings-per-share dropped almost 19% in 2009 and it wasn't until 2011 that earnings recovered above 2008's total. We continue to expect earnings-per-share to grow at a rate of 3% per year through 2026.

McGrath RentCorp announced a 3.6% dividend increase for the 4/30/2021 payment. This will give the company 30 consecutive years of dividend growth. Shares offer an annualized yield 2.3% presently, ~80 basis points higher than the average yield of the S&P 500. Despite McGrath RentCorp's variance in earnings-per-share over the last decade, the company has been able to raise its dividend each year for three decades. This is an impressive feat for a company that can be very cyclical.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.2	15.7	20.1	20.5	18.6	18.4	25.4	15.8	19.5	16.1	***18.8***	***17.6***
Avg. Yld.	3.5%	3.4%	2.9%	2.8%	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	***2.3%***	***2.4%***

Shares of McGrath RentCorp have increased $20, or 35%, in price since our 11/1/2020 update. Based off of earnings expectations for 2021, McGrath RentCorp's stock currently has a price-to-earnings ratio of 18.8. The stock has a 10-year

[1] Share count in millions

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.

average multiple of 17.6. If shares were to revert to this multiple by 2026, then valuation be a 1.3% headwind to annual results over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	46%	53%	58%	57%	63%	64%	49%	40%	38%	39%	***42%***	***42%***

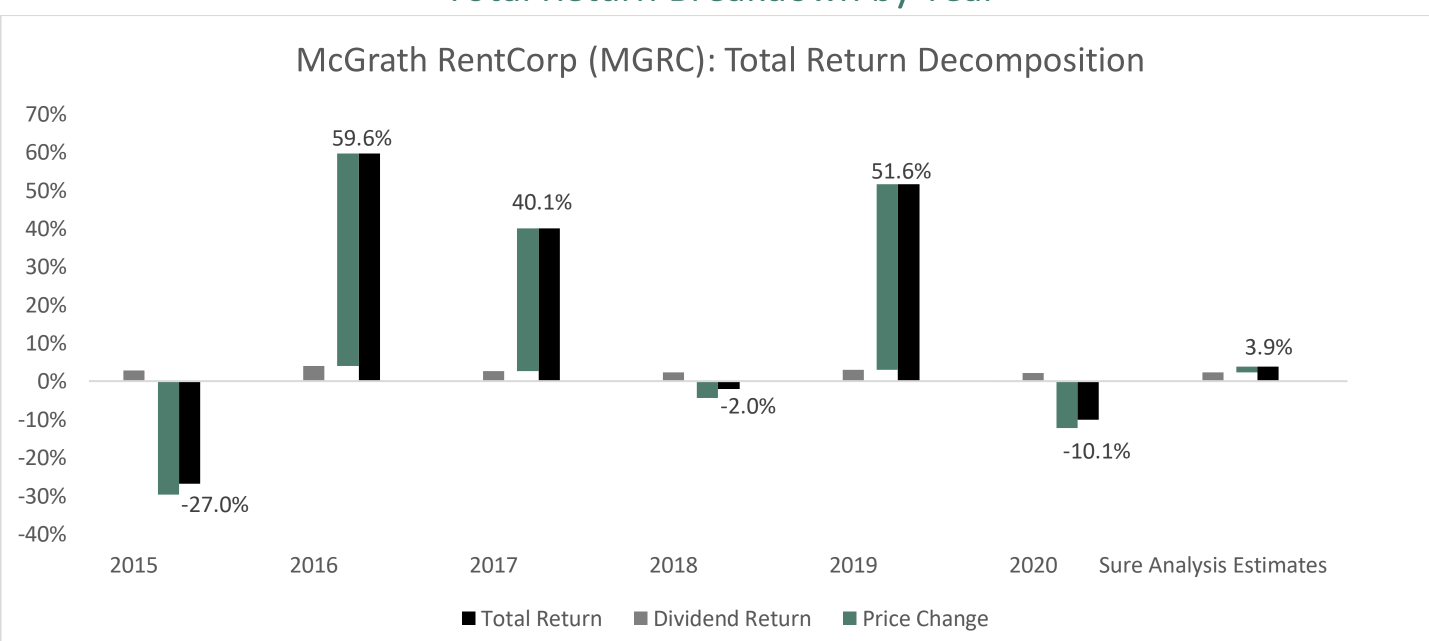
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. Even when the economy strengthened, McGrath RentCorp had difficulty growing earnings until very recently. One area McGrath RentCorp has succeeded in is lowering its debt over the past decade. The amount of debt as a percentage of assets has gone down almost every year since 2008. McGrath RentCorp's payout ratio is in a healthy range and the company has increased its dividend by at least 10% for the past three years. With three consecutive higher-than-average increases, shareholders could take this to mean that management believes earnings will grow at a higher than usual rate.

McGrath RentCorp's key competitive advantage is that company's rental portfolio is fairly diverse. The company's products are used for office space, school classrooms, telecommunications and energy purposes. While still sensitive to the state of the economy, this product diversity does give McGrath RentCorp some cushion against weakness in any one area of its business.

Final Thoughts & Recommendation

Following fourth quarter results, McGrath RentCorp is projected to return 3.9% per year through 2026, down from our previous estimate of 8.4%. McGrath RentCorp turned in a solid quarter and year given the negative impact of COVID-19 on results. The company has also now increased its dividend for 30 years, an impressive accomplishment. That said, shares have enjoyed an excellent return since our last report. We have raised our five-year price target $8 to $84, but maintain our holding rating on McGrath RentCorp due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	343	364	380	408	405	424	462	498	570	573
Gross Profit	167	168	169	182	177	184	206	233	266	264
Gross Margin	48.7%	46.2%	44.5%	44.6%	43.7%	43.4%	44.7%	46.8%	46.7%	46.1%
SG&A Exp.	78	86	89	97	100	105	112	116	125	123
D&A Exp.	67	72	77	81	84	81	78	82	89	95
Operating Profit	89	82	80	85	77	79	95	117	141	141
Operating Margin	25.9%	22.5%	21.1%	20.9%	19.0%	18.7%	20.5%	23.6%	24.8%	24.6%
Net Profit	50	45	43	46	40	38	154	79	97	102
Net Margin	14.5%	12.3%	11.4%	11.2%	10.0%	9.0%	33.3%	15.9%	17.0%	17.8%
Free Cash Flow	(43)	(20)	(11)	(42)	4	51	13	4	8	80
Income Tax	31	28	28	31	26	29	(70)	25	32	30

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	919	972	1,028	1,116	1,153	1,128	1,148	1,217	1,310	1,276
Cash & Equivalents	1	2	2	1	1	1	3	2	2	1
Accounts Receivable	93	92	88	101	95	97	106	121	128	123
Goodwill & Int. Ass.	40	39	38	38	37	36	36	35	36	35
Total Liabilities	586	608	627	692	773	734	624	646	676	593
Long-Term Debt	297	302	290	322	381	326	303	299	293	223
Shareholder's Equity	333	365	401	425	380	394	524	572	634	683
D/E Ratio	0.89	0.83	0.72	0.76	1.00	0.83	0.58	0.52	0.46	0.33

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.7%	4.7%	4.3%	4.3%	3.6%	3.4%	13.5%	6.7%	7.7%	7.9%
Return on Equity	15.8%	12.8%	11.3%	11.1%	10.1%	9.9%	33.5%	14.5%	16.1%	15.5%
ROIC	8.3%	6.9%	6.4%	6.4%	5.4%	5.2%	19.9%	9.4%	10.8%	11.1%
Shares Out.	25	25	26	26	24	24	24	24	25	24
Revenue/Share	13.84	14.47	14.64	15.59	15.89	17.69	19.04	20.31	23.16	23.34
FCF/Share	(1.73)	(0.78)	(0.42)	(1.60)	0.15	2.13	0.54	0.16	0.33	3.28

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