Ritchie Bros. Auctioneers Inc. (RBA)

Updated February 23rd, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$5.8 B
Fair Value Price:	$51	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	05/26/2021
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	06/17/2021
Dividend Yield:	1.7%	**5 Year Price Target**	$78	**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 $5.8 billion, generates around $1.4 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 dollars.

On February 18th, 2021, Ritchie Bros. reported its Q4 2020 results for the period ending December 31st, 2020. For the quarter, revenue increased by 15%, to $231.6 million, mainly due to increased sales volumes in online auctions. GTV (Gross Transaction Value) increased by 5% to $1.4 billion, showcasing strong demand for the company's intermediary online services. Further, EPS increased by 6% to $0.44 due to increased headcount to support its growth initiatives and higher short-term incentive expenses driven by strong performance. 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. The acquisition should assist in retaining Ritchie's great momentum as it revolutionizes industrial auctions, so the temporarily decreased net income should once again flourish as soon as the economies of scale start kicking in. In the absence of any guidance by management, we expect FY2021 EPS of $1.69, implying a growth just under 10%, lower than its current revenue growth to reflect slightly compressed margins as Ritchie keeps reinvesting in the business.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.72	$0.75	$0.88	$0.85	$1.27	$0.86	$0.70	$1.12	$1.37	1.54	***$1.69***	***$2.60***
DPS	$0.44	$0.48	$0.51	$0.55	$0.62	$0.67	$0.68	$0.71	$0.78	0.84	***$0.92***	***$1.48***
Shares[1]	106.2	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5	111	***114***	***121.0***

Despite Ritchie Bros. consistently growing revenues over the past decade, profitability had lagged around 2016-2019, as the company was reinvesting towards growth. We forecast EPS growth of around 8% over the medium term. This figure is lower than Ritchie's past revenue growth, in order to be prudent of the company's recent headcount hike. The company should benefit from economies of scale over time, however, and achieve synergies amongst its services (for example, certification provision before auction listing and vertical integration). Hence EPS growth is likely to accelerate in the future.

Due to profitability improving drastically, management has been accelerating 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 retain our dividend growth expectations at 10% in the medium term, comfortably supported by the company's

[1] Share count is 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.

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

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	31.7	26.3	26.4	27.9	30.6	25.0	25.8	43.7	31.2	42.5	***31.2***	***30.0***
Avg. Yld.	2.0%	2.2%	2.6%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	1.9%	***1.7%***	***1.9%***

Ritchie Bros' valuation has been incredibly consistent over the years, hovering from 25x to 30x its net income. In 2020 the stock's P/E skyrocket. In our previous report we had warned that a valuation compression was quite likely, despite the stock indeed deserving a premium. We expect the stock's P/E to remain in the low 30's in the medium term, though we could be looking at a more optimistic multiple if EPS growth re-accelerates.

Shares have historically traded with a yield of around 2%, though it has fallen near a 12-year low of just 1.7%. We expect RBA's yield to remain relatively low in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

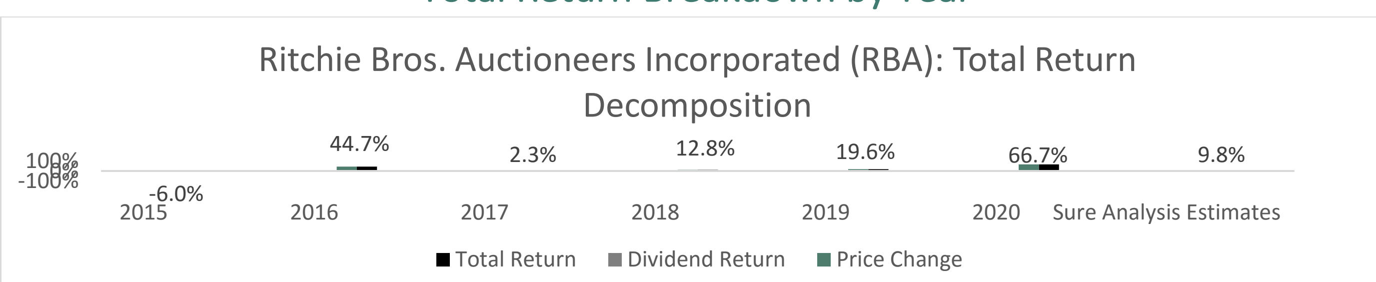
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	61%	64%	58%	65%	49%	78%	97%	63%	57%	55%	***54%***	***61%***

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 FY2021 EPS is just over 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. While EPS growth lagged in Q4 due to the company's acquisition attracting increased costs, profitability growth should remain solid. We believe that shares are offering investors for annualized returns in the medium term of around 9.8%. We rate shares a Buy because of our prudent EPS and valuation estimates which are likely to accelerate and expand once the company's recent acquisition is embedded smoothly into Ritchie's ecosystem.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	396	438	467	481	516	1,127	971	1,170	1,319	1,377
Gross Profit	348	388	413	423	460	500	532	637	673	762
Gross Margin	87.9%	88.7%	88.4%	88.0%	89.1%	44.4%	54.7%	54.4%	51.0%	55.3%
SG&A Exp.	202	227	244	248	254	284	323	383	382	418
D&A Exp.	42	41	43	45	42	41	53	67	83	87
Operating Profit	108	119	126	130	163	176	156	187	220	269
Operating Margin	27.3%	27.2%	27.0%	27.1%	31.7%	15.6%	16.0%	16.0%	16.7%	19.5%
Net Profit	77	80	94	91	136	92	75	121	149	170
Net Margin	19.3%	18.2%	20.0%	18.9%	26.4%	8.1%	7.7%	10.4%	11.3%	12.3%
Free Cash Flow	64	72	95	110	166	141	108	101	292	215
Income Tax	31	32	40	36	38	37	2	31	42	66

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	967	1,132	1,162	1,122	1,120	1,600	2,017	2,052	2,229	2,352
Cash & Equivalents	109	178	234	140	210	208	268	238	360	279
Accounts Receivable	33	46	61	61	50	45	78	113	122	112
Inventories	49	61	52	43	58	28	38	113	65	86
Goodwill & Int. Ass.	46	110	121	128	138	170	932	917	906	1,142
Total Liabilities	349	476	468	430	413	908	1,273	1,217	1,322	1,339
Accounts Payable	22	34	31	47	38	39	78	93	73	76
Long-Term Debt	146	240	182	119	110	620	820	731	650	666
Shareholder's Equity	618	657	694	692	703	687	740	831	902	1,007
D/E Ratio	0.24	0.37	0.26	0.17	0.16	0.90	1.11	0.88	0.72	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.3%	7.6%	8.2%	8.0%	12.2%	6.8%	4.1%	6.0%	7.0%	7.4%
Return on Equity	12.8%	12.5%	13.9%	13.1%	19.5%	13.2%	10.5%	15.5%	17.2%	17.8%
ROIC	10.3%	9.6%	10.6%	10.8%	16.7%	8.6%	5.2%	7.8%	9.5%	10.5%
Shares Out.	106.2	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5	110.3
Revenue/Share	3.70	4.10	4.36	4.47	4.80	10.49	8.98	10.70	12.01	12.49
FCF/Share	0.60	0.67	0.89	1.02	1.54	1.31	1.00	0.93	2.66	1.95

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