



McGrath RentCorp (MGRC)

Updated October 29th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$72	5 Year CAGR Estimate:	3.3%	Market Cap:	\$1.8 billion
Fair Value Price:	\$65	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	1/14/2022 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	1/28/2022 ²
Dividend Yield:	2.4%	5 Year Price Target	\$75	Years Of Dividend Growth:	30
Dividend Risk Score:	A	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 released third quarter earnings results on 10/29/2021. Revenue increased 11% to \$173.3 million, but missed estimates by \$4.3 million. Earnings-per-share of \$0.95 compared unfavorably to earnings-per-share of \$1.15 in the prior year and was \$0.27 below expectations.

Rental revenues improved 17% to \$103.3 million. Revenues for Mobile Modular, the company's largest division, increased 26% due to ongoing demand for new Design Space and Kitchen to Go customers. TRS-RenTelco rental revenues grew 6% due to an improvement in demand for general purpose test equipment. Adler Tanks rental revenues increased 11% due to turnaround in several regions and markets.

McGrath RentCorp now expects revenue for 2021 in a range of \$618 million to \$628 million, up from \$610 million to \$640 million and \$570 million to \$610 million previously. Analysts now expect earnings-per-share of \$3.69 for 2021, down from \$4.04 and \$4.19 previously.

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	\$3.69	\$4.28
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
Shares³	25	25	26	26	24	24	24	24	25	24	24	24

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 2.4% presently, ~110 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	6.1	17.0	16.0	20.1	19.5	17.6
Avg. Yld.	3.5%	3.4%	2.9%	2.8%	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	2.4%	2.7%

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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Shares of McGrath RentCorp are flat since our 8/8/2021 update. Based off of earnings expectations for 2021, McGrath RentCorp's stock currently has a price-to-earnings ratio of 19.5. We maintain our target valuation of 17.6 times earnings given the quality of results over the past few years. If shares were to revert to this multiple by 2026, then valuation be a 2.0% 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%	47%	47%

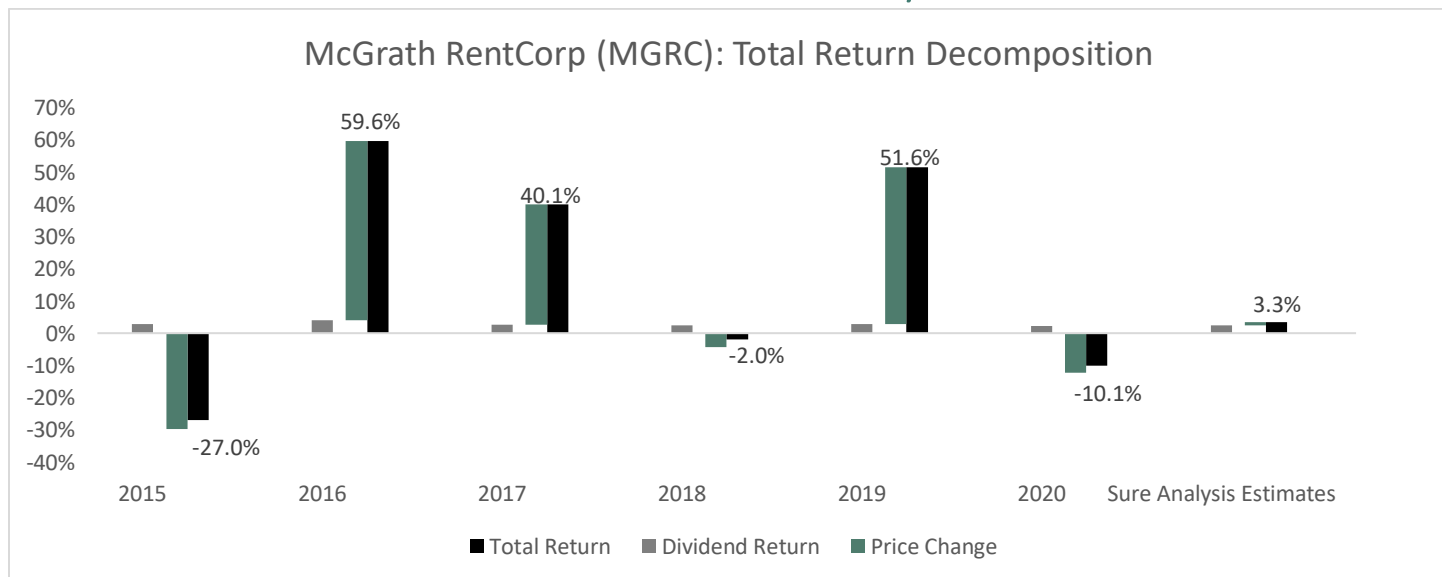
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. 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 9% for the three years prior to 2020. Higher-than-average increases could 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 third quarter results, McGrath RentCorp is projected to return 3.3% per year through 2026, down from our previous estimate of 5%. Our projected return stems from a 3% earnings growth rate and 2.4% starting yield that are offset by a low single-digit headwind from multiple compression. McGrath RentCorp's segments continue to show solid results. That said, we have lowered our 2026 price target \$7 to \$75 due to revised EPS estimates, but move the stock to a sell rating 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.

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