Ritchie Bros. Auctioneers Inc. (RBA)

Updated November 15th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$7.84 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/23/2021
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	12/15/2021
Dividend Yield:	1.4%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	14%

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 $7.84 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 November 4th, 2021, Ritchie Bros. reported its Q3-2021 results for the period ending September 30th, 2021. For the quarter, revenues declined 0.6% year-over-year to $329.68 million. This was due to total service revenue declining 4% amid a tough comparison with last year's boosted revenues as a result of COVID-19. For context, total service revenue still increased 19% compared to 2019. Net income and EPS fell to $32.3 million and $0.29, respectively, with both declining 29% compared to Q3-2020. This was due to higher operating expenses primarily driven by higher costs of inventory sold. Overall, despite Richie's seemingly weak results amid a tough comparison with last year, the company continues to enjoy strong momentum in its growth initiatives with the addition of new satellite yard locations globally, the launch of Ritchie List in North America, and cumulative IMS (Inventory Management System) activations increasing 141% compared to last quarter. Following Richie's most recent results, we are adjusting our FY2021 EPS estimates slightly from $1.68 to $1.60, nonetheless.

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	***$1.60***	***$2.58***
DPS	$0.44	$0.48	$0.51	$0.55	$0.62	$0.67	$0.68	$0.71	$0.78	0.84	***$1.00***	***$1.61***
Shares[1]	106	107	107	107	107	107	107	108	109	111	***111***	***121***

Despite Ritchie Bros. consistently growing revenues over the past decade, profitability had lagged, particularly in the 2016-2019 time period, as the company was reinvesting towards growth. We retain our EPS growth estimates from at 10% over the medium term to reflect the company's growing GMV and accretive acquisitions. The company is seeing strong demand for its auction services, while its acquisitions should inlock cost efficiencies, boosting net income. We believe strongly in Ritchie's potential synergies amongst its services (for example, certification provision before auction listing and vertical integration). Hence EPS growth is likely to remain solid.

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 14% dividend jump, we retain our dividend growth expectations at 10% in 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

[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.

a 17-year dividend growth record. Note: The current DPS run rate implies $1.00, but FY2021 DPS is likely to finalize at $0.94 as hikes occur mid-year.

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	***44.4***	***33.0***
Avg. Yld.	2.0%	2.2%	2.6%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	1.9%	***1.4%***	***1.9%***

Ritchie Bros' valuation has been incredibly consistent over the years, typically hovering from 25x to 30x earnings-per-share. Since 2020 the stock's P/E has skyrocketed. It now stands at around 44.4 as investors remain very optimistic in regards to the company's EPS growth. We continue to warn that a valuation compression is quite likely, despite the stock being deserving of its premium. We expect the stock's P/E to settle in the low 30's in the medium term, though we could be looking at a more optimistic multiple if EPS growth does not slow down. Shares have historically traded with a yield of around 2%, though the yield is now 1.4% due to the stock's valuation expansion. It should remain relatively thin going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

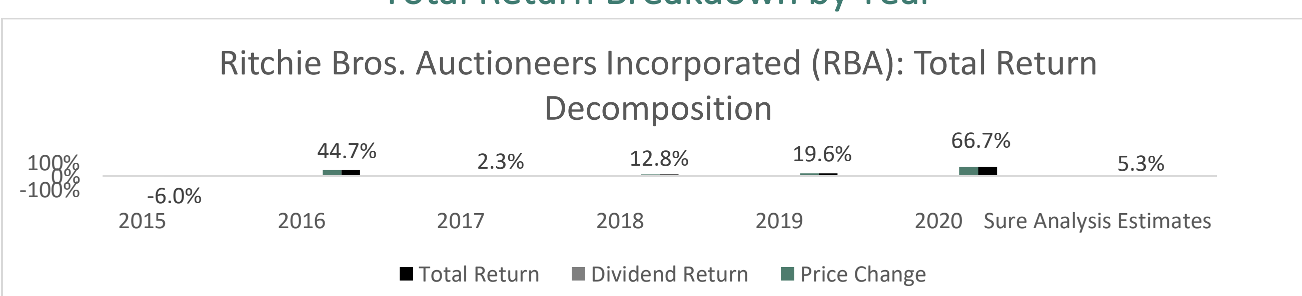
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	61%	64%	58%	65%	49%	78%	97%	63%	57%	55%	***63%***	***63%***

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 60%. 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 generally offered 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. Powered by acquisition synergies and organic growth, profitability growth should remain solid despite tough year-over-year comparisons. However, we forecast that shares are offering investors annualized returns of just 5.3% in the medium term, due to the possibility of strong valuation headwinds ahead. We, therefore, rate shares a hold at the moment.

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.