McGrath RentCorp (MGRC)

Updated February 26th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$2.0 billion
Fair Value Price:	$74	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	4/13/2022
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	4/29/2022
Dividend Yield:	2.2%	**5 Year Price Target**	$86	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.6%

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 2/23/2022. For the quarter, revenue grew 18.1% to $175.9 million, which was $0.4 million better than expected. Earnings-per-share of $1.16 compared to $1.27 in the previous year, but was $0.01 above expectations. For 2021, revenue improved 7.7% to $616.8 million while earnings-per-share of $3.66 was slightly below our estimates and compared unfavorably to $4.16 in the previous year.

For the quarter, rental revenues grew 20% to $106.1 million. Revenues for Mobile Modular, the company's largest division, were up 29% due to ongoing demand for Design Space and Kitchen equipment. TRS-RenTelco rental revenues increased 4% due to demand for general purpose test equipment. Adler Tanks rental revenues were higher by 19% due to growth across regions and markets.

McGrath RentCorp offered guidance for 2022 as well, with the company expecting revenue in a range of $675 million to $705 million, which would represent nearly 12% growth at the midpoint. Analysts expect the company to generate $4.20 of earnings-per-share in 2022, which would be a nearly 15% improvement from 2021. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.78	$1.67	$1.73	$1.59	$1.60	$2.12	$3.24	$3.93	$4.16	$3.66	***$4.20***	***$4.87***
DPS	$0.94	$0.96	$0.98	$1.00	$1.02	$1.04	$1.28	$1.50	$1.64	$1.73	***$1.82***	***$2.11***
Shares[1]	25	26	26	24	24	24	24	25	24	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 2027.

McGrath RentCorp announced a 4.6% dividend increase for the 4/29/2022 payment. This will give the company 31 consecutive years of dividend growth. Shares offer an annualized yield 2.2% 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 more than three decades. This is an impressive feat for a company that can be very cyclical.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.7	20.1	20.5	18.6	18.4	6.1	17.0	16.0	20.1	21.9	***19.3***	***17.6***
Avg. Yld.	3.4%	2.9%	2.8%	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	2.2%	***2.2%***	***2.5%***

[1] Share count in millions

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Shares of McGrath RentCorp have gained $9, or 12.5%, since our 10/29/2021 update. Based off of earnings expectations for 2022, McGrath RentCorp's stock currently has a price-to-earnings ratio of 19.3. 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 2027, then valuation be a 1.8% headwind to annual results over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	53%	58%	57%	63%	64%	49%	40%	38%	39%	47%	***43%***	***43%***

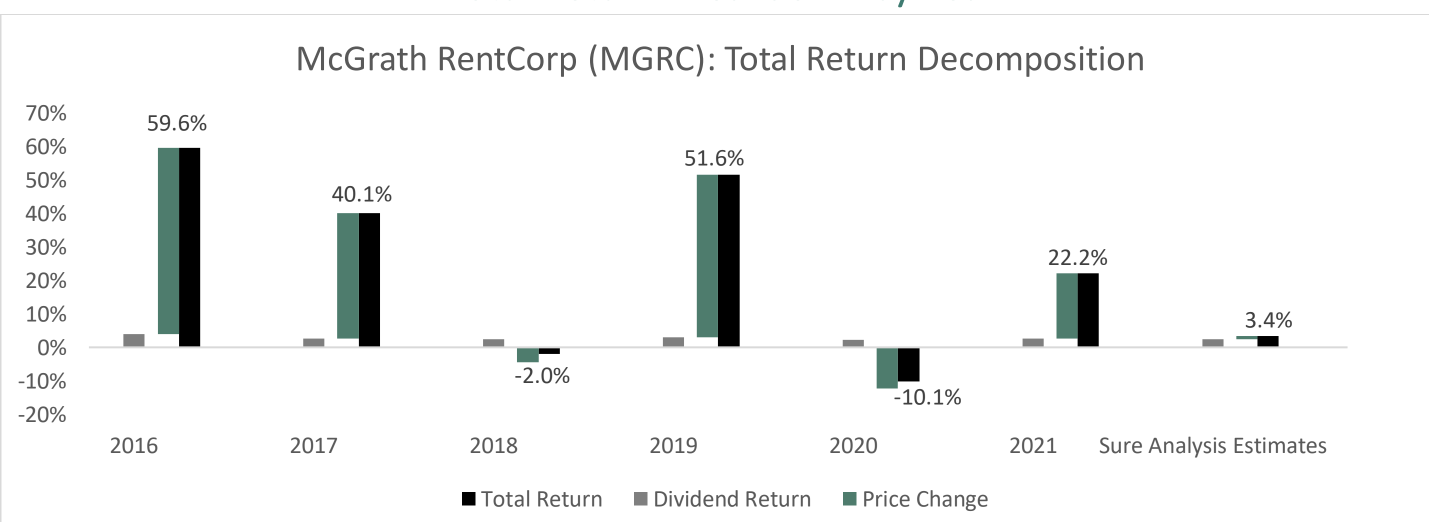
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. 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, though the last two raises have been below this range. 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 fourth quarter results, McGrath RentCorp is projected to return 3.4% per year through 2027, up slightly from our previous estimate of 3.3%. Our projected return stems from a 3% earnings growth rate and 2.2% starting yield that are partially offset by a low single-digit headwind from multiple compression. Each of McGrath RentCorp's business segments performed well during the quarter and expectations for 2022 are for double-digit growth for both the top- and bottom-line. We have increased our five-year target price $11 to $86, but maintain our sell rating on the stock due to projected returns.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	364	380	408	405	424	462	498	570	573	617
Gross Profit	168	169	182	177	184	206	233	266	264	281
Gross Margin	46.2%	44.5%	44.6%	43.7%	43.4%	44.7%	46.8%	46.7%	46.1%	45.6%
SG&A Exp.	86	89	97	100	105	112	116	125	123	149
D&A Exp.	72	77	81	84	81	78	82	89	95	107
Operating Profit	82	80	85	77	79	95	117	141	141	132
Operating Margin	22.5%	21.1%	20.9%	19.0%	18.7%	20.5%	23.6%	24.8%	24.6%	21.5%
Net Profit	45	43	46	40	38	154	79	97	102	90
Net Margin	12.3%	11.4%	11.2%	10.0%	9.0%	33.3%	15.9%	17.0%	17.8%	14.5%
Free Cash Flow	(20)	(11)	(42)	4	51	13	4	8	80	79
Income Tax	28	28	31	26	29	(70)	25	32	30	32

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	972	1,028	1,116	1,153	1,128	1,148	1,217	1,310	1,276	1,596
Cash & Equivalents	2	2	1	1	1	3	2	2	1	1
Accounts Receivable	92	88	101	95	97	106	121	128	123	159
Goodwill & Int. Ass.	39	38	38	37	36	36	35	36	35	179
Total Liabilities	608	627	692	773	734	624	646	676	593	864
Long-Term Debt	302	290	322	381	326	303	299	293	223	426
Shareholder's Equity	365	401	425	380	394	524	572	634	683	732
LTD/E Ratio	0.83	0.72	0.76	1.00	0.83	0.58	0.52	0.46	0.33	0.58

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.7%	4.3%	4.3%	3.6%	3.4%	13.5%	6.7%	7.7%	7.9%	6.2%
Return on Equity	12.8%	11.3%	11.1%	10.1%	9.9%	33.5%	14.5%	16.1%	15.5%	12.7%
ROIC	6.9%	6.4%	6.4%	5.4%	5.2%	19.9%	9.4%	10.8%	11.1%	8.7%
Shares Out.	25	26	26	24	24	24	24	25	24	24
Revenue/Share	14.47	14.64	15.59	15.89	17.69	19.04	20.31	23.16	23.34	25.16
FCF/Share	(0.78)	(0.42)	(1.60)	0.15	2.13	0.54	0.16	0.33	3.28	3.22

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