McGrath RentCorp (MGRC)

Updated April 26th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$109	**5 Year CAGR Estimate:**	2.5%	**Market Cap:**	$2.7 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	04/15/24
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	04/30/24
Dividend Yield:	1.7%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Sell

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. The company completed the divestiture of its Adler Tanks during the first quarter of 2023.

On January 29th, 2024, it was announced that WillScot Mobile Mini (WSC) had agreed to purchase McGrath RentCorp for $3.8 billion in cash and stock. It should be noted that the FTC has asked for additional information regarding the transaction, but the deal is still expected to close in the second quarter of 2024.

On April 25th, 2024, McGrath RentCorp reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue increased 14.7% to $187.8 million, which beat estimates by $15.7 million. Earnings-per-share of $0.93 compared favorably to $0.77 in the previous year and was $0.20 better than expected.

For the quarter, rental revenues improved 9% to $120.3 million. Rental revenues for Mobile Modular, the company's largest division, were up by 19% to $76.5 million due to higher delivery and pickup activities along with an increase in new equipment sales. TRS-RenTelco rental revenues fell 13% to $25.4 million, due once again to lower demand from semiconductor related end markets. Portable Storage revenue increased 8% to $18.4 million while service revenue was flat year-over-year.

Because of the pending transaction to acquire the company, McGrath RentCorp has not provided guidance for the year. We estimate that the company could earn $5.42 in 2024 if it wasn't in the process of being acquired.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.73	$1.59	$1.60	$2.12	$3.24	$3.93	$4.16	$3.66	$4.70	$4.56	***$5.42***	***$6.28***
DPS	$0.98	$1.00	$1.02	$1.04	$1.28	$1.50	$1.64	$1.73	$1.80	$1.85	***$1.90***	***$2.20***
Shares[1]	26	24	24	24	24	25	24	24	24	25	***25***	***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 was not until 2011 that earnings recovered above 2008's total. We would expect earnings-per-share to grow at a rate of 3% per year through 2029 if McGrath RentCorp were to be a standalone company.

On February 21st, 2024, McGrath RentCorp announced that it was raising its quarterly dividend 2.2% to $0.475, extending the company's dividend growth streak to 32 years. Shares offer an annualized yield 1.5% presently, slightly 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 in an industry that can be very cyclical.

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[1] Share count in millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.5	18.6	18.4	6.1	17.0	16.0	20.1	21.9	21.0	26.2	***20.1***	***18.0***
Avg. Yld.	2.8%	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	2.2%	1.8%	1.5%	***1.7%***	***1.9%***

Shares of McGrath RentCorp have decreased $16, or 12.8%, since our February 26th, 2024 update. Based off earnings expectations for 2024, McGrath RentCorp's stock currently has a price-to-earnings ratio of 20.1. We have a valuation target of 18 times earnings, in-line with the long-term average for the stock. Valuation could reduce annual returns by 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57%	63%	64%	49%	40%	38%	39%	47%	38%	41%	***35%***	***35%***

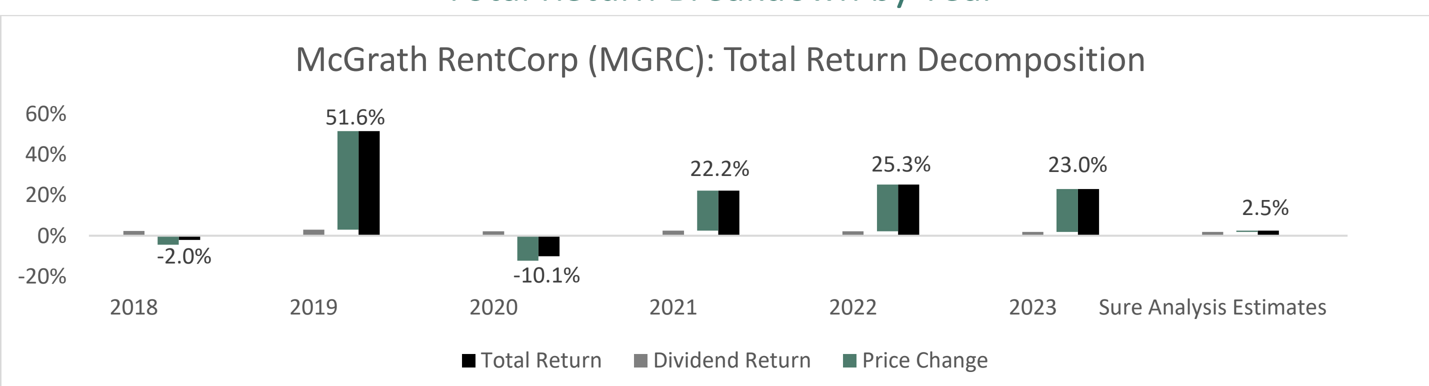
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. 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 diverse. The company's products are used for office space, school classrooms, and telecommunications 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 first quarter results, McGrath RentCorp is projected to return 2.5% annually, compared to our previous estimate of a loss of 0.2%. Our projected return stems from a 3% earnings growth rate and 1.7% starting yield that are offset by a low single-digit headwind from multiple compression. However, these estimates are largely hypothetical as we assume that the acquisition of the company by WillScot Mobile Mini will be approved. We rate shares of McGrath RentCorp as a sell as the current price is below the acquisition price of $123.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	408	405	424	462	498	570	573	535	636	832
Gross Profit	182	177	184	206	233	266	264	247	290	394
Gross Margin	44.6%	43.7%	43.4%	44.7%	46.8%	46.7%	46.1%	46.3%	45.7%	47.3%
SG&A Exp.	97	100	105	112	116	125	123	123	143	208
D&A Exp.	81	84	81	78	82	89	95	107	111	109
Operating Profit	85	77	79	95	117	141	141	124	147	190
Operating Margin	20.9%	19.0%	18.7%	20.5%	23.6%	24.8%	24.6%	23.2%	23.2%	22.8%
Net Profit	46	40	38	154	79	97	102	90	115	175
Net Margin	11.2%	10.0%	9.0%	33.3%	15.9%	17.0%	17.8%	16.8%	18.1%	21.0%
Free Cash Flow	(42)	4	51	13	4	8	80	79	(11)	(178)
Income Tax	31	26	29	(70)	25	32	30	31	31	38

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,116	1,153	1,128	1,148	1,217	1,310	1,276	1,596	1,708	2,217
Cash & Equivalents	1	1	1	3	2	2	1	1	1	1
Accounts Receivable	101	95	97	106	121	128	123	159	170	227
Goodwill & Int. Ass.	38	37	36	36	35	36	35	179	142	388
Total Liabilities	692	773	734	624	646	676	593	864	904	1,283
Long-Term Debt	322	381	326	303	299	293	223	426	414	763
Shareholder's Equity	425	380	394	524	572	634	683	732	804	934
LTD/E Ratio	0.76	1.00	0.83	0.58	0.52	0.46	0.33	0.58	0.51	0.82

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.3%	3.6%	3.4%	13.5%	6.7%	7.7%	7.9%	6.2%	7.0%	8.9%
Return on Equity	11.1%	10.1%	9.9%	33.5%	14.5%	16.1%	15.5%	12.7%	15.0%	20.1%
ROIC	6.4%	5.4%	5.2%	19.9%	9.4%	10.8%	11.1%	8.7%	9.7%	12.0%
Shares Out.	26	24	24	24	24	25	24	24	24	25
Revenue/Share	15.59	15.89	17.69	19.04	20.31	23.16	23.34	21.81	25.93	33.91
FCF/Share	(1.60)	0.15	2.13	0.54	0.16	0.33	3.28	3.22	(0.44)	(7.27)

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