



Should Investors Consider Ritchie Bros. Auctioneers Inc.?

Description

As the oil markets have fallen over the past few years, long-term investors in **Ritchie Bros. Auctioneers Inc.** ([TSX:RBA](#))([NYSE:RBA](#)) have done very well.

With a tremendous amount of mining and manufacturing companies either contracting or going bankrupt, the company, which is in the auction business, has been the large benefactor of many misfortunes. As companies shrank, the need for equipment declined, and many items went on the auction block.

Over the past five years, shares of Ritchie Bros. increased by close to 70%. In spite of the company being flat over the past few years, the underlying fundamentals of the business may still be heading in the right direction.

Considering the long-term track record, investors need to appreciate that shares of the company have carried a positive correlation with the price of oil in the amount of 0.16. Essentially, when things go well in the oil field, the wealth that is created leads to the purchase of many new items, and the auction markets remains subdued.

When the industry turns negative, however, the auction market seems to open nicely, which results in shareholders of Ritchie Bros. reaping the benefits. For investors who are unaware of correlation, the metric is actually incredibly important. Correlation is the relationship between two unknowns. Essentially, it is how two stocks interact.

Correlation holds a value between -1 and +1. Two stocks that share a positive correlation close to +1 are stocks that move in the same direction in almost all circumstances. On the flip side, two stocks that hold a correlation of -1 will move in completely opposite directions.

Given the very low correlation between the price of oil and shares of this auctioneer, investors may want to consider this investment as a hedge against a long-term drop in the price of oil. Although the massive drop in oil prices is solidly in the rear-view mirror, investors may still have a significant opportunity ahead of them as many companies involved in the oil, mining, and manufacturing sectors may not be able to turn the corner and recover alongside other sectors.

Ritchie Bros. is currently priced near \$37 per share. The multiples on this unique business remain a little high. Over the past four years, the company has earned \$1.60 (2013), \$0.88 (2014), \$1.20 (2015), and \$1.16 (2016) per share. For fiscal 2017, the company earned only \$0.14 per share, which is a substantial decline from the \$0.27 earned from the same quarter one year earlier.

Although many investors saw the writing on the wall and bought early, shares of Ritchie Bros. may still offer significant upside assuming the price of oil or another major resource takes a tumble. The challenge investors will face will be finding the next catalyst for shares to run. Until then, it may be best to remain cautious.

CATEGORY

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2. Investing

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