



3 Reasons to Own This Industrial Heavyweight

Description

Last November, you could have picked up **Ritchie Bros. Auctioneers Inc.** ([TSX:RBA](#))([NYSE:RBA](#)), the Vancouver-based global offline and online auction house, for 25% less than where it's currently trading.

Is that a missed opportunity? Not from where I sit. Sure, it's not nearly as cheap as it was heading into the final month of 2017, when it [yielded](#) 2.3%, but Ritchie Bros. stock is still a good buy for those looking to hold three to five years.

Here are three reasons why.

Big acquisition

A lot of corporate acquisitions turn out to be nothing but hot air and misspent dollars. However, Ritchie Bros.'s May 2017 [acquisition](#) of IronPlanet, a leading online marketplace for buying and selling heavy duty industrial and construction equipment, for US\$759 million gives the company a significant place within the online industrial marketplace.

IronPlanet brings to the table more than 1.8 million registered users worldwide and is accretive to earnings from year one. Together, Ritchie Bros. will be able to provide its global customer base with the best multi-channel sales experience possible, online and offline.

IronPlanet has a very good working relationship with **Caterpillar Inc.** — it had an ownership stake along with its dealers and several other large entities — and will continue to lean on that relationship with a new five-year strategic relationship with Caterpillar to sell its used industrial equipment.

Caterpillar continues to benefit from its relationship with IronPlanet and Ritchie Bros. without having its capital tied up in a passive investment. It's a win/win.

One online marketplace

Any acquisition worth its salt has got to provide synergies and cost savings, or it's generally not worth the time and effort. In the case of IronPlanet and Ritchie Bros., they've taken both companies' online marketplaces and combined them into Marketplace E, which allows Caterpillar and any other company

looking to dispose of heavy equipment assets quickly and from their own premises, making and saving them time and money.

With the introduction of technology solutions, such as its mobile app, which it launched in 2016, the company has been able to deliver sales growth it didn't have prior to the platform's introduction. In 2017, the mobile app saw 280% growth in the number of users and 590% growth in the equipment purchased via the app (US\$84 million).

In fact, the mobile app accounted for 7% of the US\$4.5 billion in gross transactional value (GTV) bought and sold in 2017. The digitization of Ritchie Bros.'s business will push GTV to US\$10 billion globally over the next decade, maybe sooner.

Analysts love it

RBC Dominion Securities analyst Derek Spronck recently initiated coverage of its stock with a "sector perform" rating and a 12-month price target of US\$33.

"Ritchie is the largest auctioneer of industrial equipment, with global scale and a strong brand reputation. Management has not been complacent and has reshaped Ritchie from a bricks-and-mortar auctioneer, into a technology-led asset management and disposition company," Spronck said in a recent note to clients. "Major investments have been made and Ritchie is just now leveraging its multi-channel platform. The key is that this enhanced platform is more scalable, allowing for growth in both existing and new product verticals."

So, by acquiring IronPlanet, it's been able to cut costs while also building a better mousetrap. In the next three to five years, Ritchie Bros shareholders will benefit from this move to become a technology-driven company without as much of a need for site-specific auction services.

In the end, the digitization provides its industrial equipment clients with a better asset-disposition process.

It generates 53% of its overall revenue in the U.S., 28% in Canada, and 19% in Europe and elsewhere. Expect it to continue grabbing market share everywhere it operates.

Yes, Ritchie Bros. is expensive at 23 times cash flow, but sometimes you have to pay more for quality.

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