Trane Technologies (TT)

Updated February 6th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$149	**5 Year CAGR Estimate:**	-1.7%	**Market Cap:**	$36 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/04/21
% Fair Value:	163%	**5 Year Valuation Multiple Estimate:**	-9.3%	**Dividend Payment Date:**	03/31/21
Dividend Yield:	1.6%	**5 Year Price Target**	$123	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.3%

Overview & Current Events

On April 30th, 2019 Ingersoll-Rand announced a definitive agreement to merge its industrial segment with Gardner Denver Holdings (GDI) and spin-off this segment to shareholders. On February 29th, 2020 this transaction was completed, with Gardner Denver taking the Ingersoll-Rand name and ticker, along with the Ingersoll-Rand and Club Car brands. The remaining Climate portion of the business (roughly ~80% of the prior company) was renamed Trane Technologies (TT) and began trading on March 2nd, 2020. Trane Technologies is a pure-play global climate innovator. Through the company's leading Trane and Thermo King brands, the $36 billion market cap company provides products and services to bring efficient and sustainable climate solutions to buildings, homes and transportation.

On February 4th, 2021 Trane Technologies declared a $0.59 quarterly dividend, marking a 11.3% increase and authorized a new $2 billion share repurchase program.

On February 5th, 2021 Trane Technologies released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter the company reported $3.17 billion in bookings, up 3.6% compared to Q4 2019, while revenue was down marginally to $3.18 billion. The Americas segment, by far the largest portion of the business, saw bookings and revenue increase 1.5% and 0.5% respectively. Adjusted operating income equaled $394 million compared to $347 million in the prior year, while adjusted earnings-per-share totaled $1.03 versus $0.92 in Q4 2019.

For the year Trane Technologies reported $13.00 billion in bookings, up 1.7%, and $12.46 billion in revenue, a -4.7% decline, compared to pro-forma 2019 results. Adjusted operating income equaled $1.64 billion compared to $1.72 billion in 2019, while adjusted earnings-per-share equaled $4.46 versus $4.86 in 2019.

Trane Technologies also provided 2021 guidance, anticipating $5.30 to $5.50 in adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.82	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	$5.61	$6.37	$4.46	***$5.40***	***$7.23***
DPS	$0.59	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	$1.96	$2.12	$2.12	***$2.36***	***$3.16***
Shares[1]	297	296	278	263	261	259	249	242	244	243	***240***	***230***

Note that the historical numbers above show the previously combined Ingersoll-Rand business through 2019. From 2020 onward the numbers reflect the independent Trane Technologies.

From 2008 through 2019, Ingersoll-Rand grew earnings-per-share by a compound rate of 8.2% per annum. This is a reasonable historical barometer as it incorporates a full business cycle (the company generates solid profits, but it is susceptible to economic cyclicality). Moving forward Trane Technologies has a healthy growth outlook over the long-term due to the continued expansion of the global economy, as well as a strong North American housing market. Another long-term growth catalyst is technology and innovation designed to solve climate-related issues.

The midpoint of management's guidance implies a 21% increase from 2020's results. This is quite impressive considering the current operating environment. We are forecasting 6% annual growth from this point.

[1] 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.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.3	12.9	28.1	18.1	16.7	15.6	19.0	16.6	17.8	23.7	***27.7***	***17.0***
Avg. Yld.	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	2.3%	***1.6%***	***2.6%***

Since 2010 (excluding 2013 when reported earnings dipped) shares of Ingersoll-Rand traded hands with an average P/E ratio of about 16 times earnings. We are using 17 times earnings for Trane Technologies, weighing the solid growth prospects with the occasional cyclicality and unknown of the new pure-play company. With shares trading at 28 times estimated earnings, this would imply a significant valuation headwind from this point. Meanwhile, the dividend – which dates back to 1910 - has room to grow and could add nicely to an investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21%	19%	40%	30%	31%	33%	38%	35%	33%	48%	***44%***	***44%***

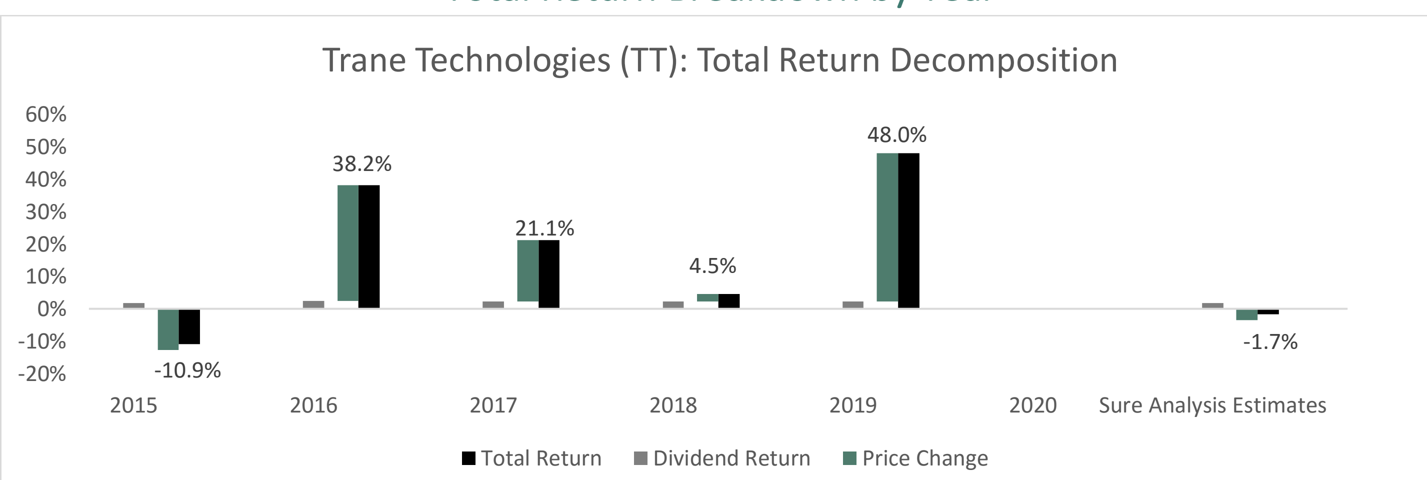
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the last recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23 and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 down to $0.28 in 2010. We expect Trane Technologies to perform similarly. While the bounce back performance is admirable, the company is still sensitive to economic downturns.

At the end of the quarter Trane Technologies held $3.3 billion in cash, $6.9 billion in current assets and $18.2 billion in total assets (with goodwill and intangibles making up 48% of assets) against $4.3 billion in current liabilities and $11.7 billion in total liabilities. Long-term debt stood at $4.5 billion.

Final Thoughts & Recommendation

After being up 38% and 16% in our last two reports, shares are up another 17% in the last three months. Trane Technologies is a new pure-play climate solutions company. While the name is new, this company carries forward the majority of the legacy Ingersoll-Rand shareholders' economic interest. The business has performed well since the last recession, but we are mindful of the possibility of lackluster results during lesser times. We forecast -1.7% total return potential, driven by a 6% growth and the 1.6% dividend yield, offset by the potential for a significant valuation headwind. Due to the valuation, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	12,761	11,988	12,351	12,891	13,301	13,509	4,198	5,668	16,599
Gross Profit	3,481	3,455	3,628	3,909	4,023	4,201	4,386	4,821	5,147
Gross Margin	27.3%	28.8%	29.4%	30.3%	30.2%	31.1%	31%	30.8%	31.0%
SG&A Exp.	2,395	2,383	2,523	2,504	2,532	2,598	2,721	2,903	3,130
D&A Exp.	359	334	334	332	364	352	353	362	397
Operating Profit	1,086	1,072	1,105	1,405	1,492	1,603	,665	1,917	2,018
Op. Margin	8.5%	8.9%	8.9%	10.9%	11.2%	11.9%	12%	12.2%	12.2%
Net Profit	343	1,019	619	932	665	1,476	1,303	1,338	1,411
Net Margin	2.7%	8.5%	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%
Free Cash Flow	970	952	849	740	639	1,339	1,302	1,042	1,665
Income Tax	45	56	189	294	541	282	80	281	354

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	18844	18482	17658	17299	16718	17397	18173	17915	20,492
Cash & Equivalents	1161	708	1937	1705	737	1715	1549	903	1,304
Acc. Receivable	2136	1870	2072	2119	2151	2223	2477	2679	2,798
Inventories	1278	1144	1166	1359	1411	1386	1555	1678	1,712
Goodwill & Int.	10438	9543	9463	9174	9656	9444	9679	9594	10,932
Total Liabilities	11828	11253	10527	11253	10838	10679	10966	10850	13,180
Accounts Payable	1224	1019	1163	1290	1249	1334	1556	1705	1,809
Long-Term Debt	3643	3229	3521	4224	4218	4070	4064	4091	5,573
Total Equity	6928	7148	7069	5987	5817	6644	7140	N/A	7,312
D/E Ratio	0.53	0.45	0.50	0.71	0.73	0.61	0.57	N/A	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.8%	5.5%	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%
Return on Equity	4.6%	14.5%	8.7%	14.3%	11.3%	23.7%	18.9%	N/A	19.7%
ROIC	3.1%	9.6%	5.9%	8.9%	6.5%	14.1%	11.8%	N/A	11.7%
Shares Out.	297	296	278	263	261	259	249	250	244
Revenue/Share	37.61	38.60	41.40	47.00	49.67	51.62	55.01	62.65	67.92
FCF/Share	2.86	3.07	2.85	2.70	2.39	5.12	5.05	4.17	6.81

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