Trane Technologies (TT)

Updated August 8th, 2021, by Eli Inkrot

Key Metrics

Current Price:	$197	**5 Year CAGR Estimate:**	-2.2%	**Market Cap:**	$48 B
Fair Value Price:	$121	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/02/21
% Fair Value:	163%	**5 Year Valuation Multiple Estimate:**	-9.3%	**Dividend Payment Date:**	09/30/21
Dividend Yield:	1.2%	**5 Year Price Target**	$162	**Years Of Dividend Growth:**	1
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.3%

Overview & Current Events

On February 29th, 2020, Ingersoll-Rand merged its industrial segment with Gardner Denver Holdings (GDI) and spun-off this segment to shareholders. Gardner Denver took 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 $48 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 August 4th, 2021, Trane Technologies released Q2 2021 results for the period ending June 30th, 2021. For the quarter the company reported $4.384 billion in bookings, up 34.1% compared to Q2 2020, while revenue equaled $3.83 billion, a 22.0% increase. The Americas segment, by far the largest portion of the business, saw bookings and revenue increase 31.3% and 21.0% respectively. Adjusted operating income equaled $656 million compared to $471 million in the prior year, while adjusted earnings-per-share totaled $1.92 versus $1.27 in Q2 2020.

Trane Technologies also updated its 2021 guidance, anticipating $6.05 in EPS (up from $6.00 prior).

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	***$6.05***	***$8.10***
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	***244***	***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.

Management's new guidance implies a significant increase from 2020's results. This is quite impressive considering the current operating environment. We are forecasting 6% annual growth over the intermediate term.

[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	***32.6***	***20.0***
Avg. Yld.	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	2.3%	***1.2%***	***2.0%***

Since 2011 (excluding 2013 when reported earnings dipped) shares of Ingersoll-Rand traded hands with an average P/E ratio of about 17 times earnings. We are using 20 times earnings for Trane Technologies, weighing the solid growth prospects with the occasional cyclicality. With shares trading at 33 times management's estimate of earnings, this implies a significant valuation headwind from this point. Meanwhile, the dividend – which dates back to 1910 - has room to grow.

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%	***39%***	***39%***

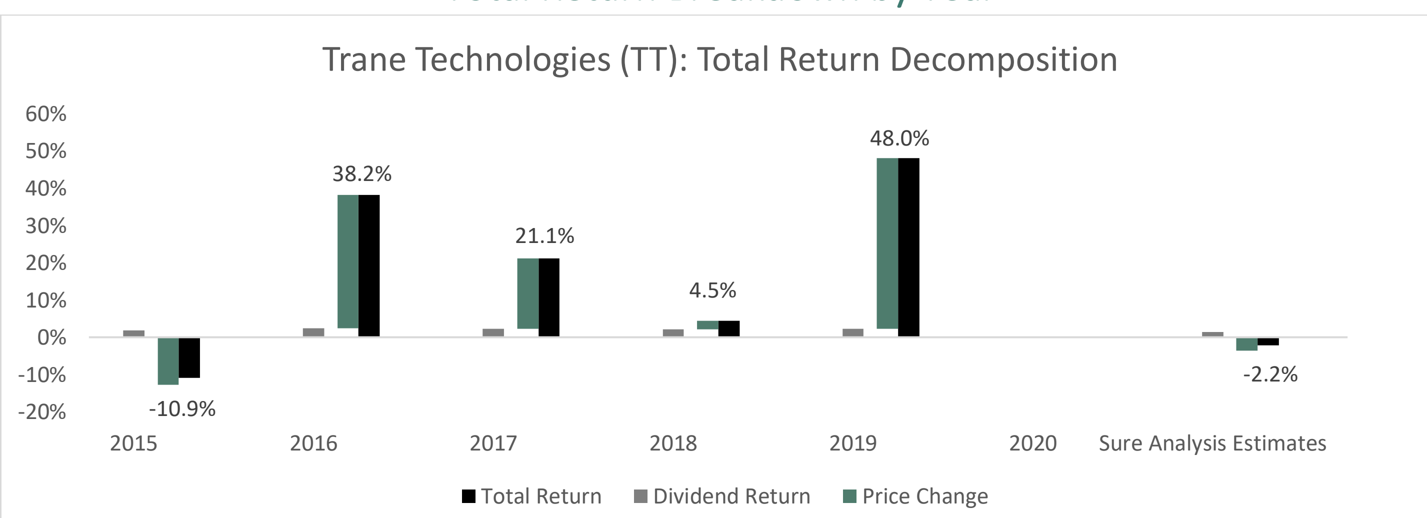
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the last recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23 and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 down 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 $2.9 billion in cash, $7.1 billion in current assets and $18.4 billion in total assets (with goodwill and intangibles making up 47% of assets) against $4.5 billion in current liabilities and $11.9 billion in total liabilities. Long-term debt stood at $4.5 billion.

Final Thoughts & Recommendation

Shares are up 146% since our May 2020 report. 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 -2.2% total return potential, driven by a 6% growth and a 1.2% dividend yield, offset by the potential for a significant valuation headwind. 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	2020
Revenue	12,761	11,988	12,351	12,891	13,301	13,509	4,198	5,668	16,599	12,450
Gross Profit	3,481	3,455	3,628	3,909	4,023	4,201	4,386	4,821	5,147	3,803
Gross Margin	27.3%	28.8%	29.4%	30.3%	30.2%	31.1%	31%	30.8%	31.0%	30.5%
SG&A Exp.	2,395	2,383	2,523	2,504	2,532	2,598	2,721	2,903	3,130	2,271
D&A Exp.	359	334	334	332	364	352	353	362	397	294
Operating Profit	1,086	1,072	1,105	1,405	1,492	1,603	,665	1,917	2,018	1,533
Op. Margin	8.5%	8.9%	8.9%	10.9%	11.2%	11.9%	12%	12.2%	12.2%	12.3%
Net Profit	343	1,019	619	932	665	1,476	1,303	1,338	1,411	855
Net Margin	2.7%	8.5%	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%	6.9%
Free Cash Flow	970	952	849	740	639	1,339	1,302	1,042	1,665	1,289
Income Tax	45	56	189	294	541	282	80	281	354	297

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	18844	18482	17658	17299	16718	17397	18173	17915	20,492	18,160
Cash & Equivalents	1161	708	1937	1705	737	1715	1549	903	1,304	3,290
Acc. Receivable	2136	1870	2072	2119	2151	2223	2477	2679	2,798	2,202
Inventories	1278	1144	1166	1359	1411	1386	1555	1678	1,712	1,189
Goodwill & Int.	10438	9543	9463	9174	9656	9444	9679	9594	10,932	8,629
Total Liabilities	11828	11253	10527	11253	10838	10679	10966	10850	13,180	11,730
Accounts Payable	1224	1019	1163	1290	1249	1334	1556	1705	1,809	1,520
Long-Term Debt	3643	3229	3521	4224	4218	4070	4064	4091	5,573	5,272
Total Equity	6928	7148	7069	5987	5817	6644	7140	N/A	7,312	6,408
D/E Ratio	0.53	0.45	0.50	0.71	0.73	0.61	0.57	N/A	0.76	0.82

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	5.5%	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%	4.4%
Return on Equity	4.6%	14.5%	8.7%	14.3%	11.3%	23.7%	18.9%	---	19.7%	12.5%
ROIC	3.1%	9.6%	5.9%	8.9%	6.5%	14.1%	11.8%	---	11.7%	7.0%
Shares Out.	297	296	278	263	261	259	249	250	244	243
Revenue/Share	37.61	38.60	41.40	47.00	49.67	51.62	55.01	62.65	67.92	51.23
FCF/Share	2.86	3.07	2.85	2.70	2.39	5.12	5.05	4.17	6.81	5.30

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