



Triton International Limited (TRTN)

Updated October 28th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	13.9%	Market Cap:	\$4.17 B
Fair Value Price:	\$81	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/08/2021
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.4%	Dividend Payment Date:	12/23/2021
Dividend Yield:	4.2%	5 Year Price Target	\$103	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	14%

Overview & Current Events

Triton International is the world's largest lessor of intermodal containers. The company was formed on July 12th, 2016, through an all-stock merger between Triton Container International Limited ("TCIL") and TAL International Group ("TAL"). The company's intermodal containers are large, standardized steel boxes used to transport freight by ship, rail, or truck. Due to the handling efficiencies they provide, intermodal containers are the primary means by which many goods and materials are shipped internationally. At the end of Q3, Triton's total fleet consisted of 4.2 million containers and chassis, representing 7.1 million twenty-foot equivalent units. The company generates around \$1.4 billion in annual revenues and is headquartered in Hamilton, Bermuda.

On October 25th, 2021, Triton reported its Q3-2021 results for the quarter ended September 30th, 2021. Total leasing revenues during the quarter equaled \$415.4 million, 16.8% higher vs. the comparable period last year. The ongoing supply chain crisis has caused a container shortage, providing Triton with great pricing and operating leverage. Further, consumer spending on goods remained robust, resulting in solid leasing demand and exceptional sale prices for Triton's used containers. Adjusted EPS was \$2.43 compared to \$1.14 in Q3-2020, following economies of scale and declining interest expenses. Specifically, Triton successfully restructured its debt, reducing its avg. cost by 43bps to 2.77%. At the end of the quarter, the company's fleet utilization had increased by 10 basis points quarter-to-quarter, to 99.6%, which is highly impressive. Management guided towards slightly higher EPS in Q4 from Q3. Assuming adjusted EPS of \$2.50 in Q4, we recalibrate our FY2021 EPS estimate from \$8.30 to \$9.00. Following its strong performance, Triton hiked its quarterly EPS by 14% to \$0.65 and boosted its share repurchase program to \$200 million.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	-\$0.24	\$4.55	\$4.38	\$4.57	\$4.18	\$9.00	\$11.49
DPS	---	---	---	---	---	\$0.90	\$1.80	\$2.01	\$2.08	\$2.13	\$2.60	\$3.65
Shares¹	---	---	---	---	---	56	76.2	80.4	74.7	67.1	67.2	57.0

Despite Triton operating in arguably one of the most cyclical industries, with global shipping subject to multiple potential disruptions, the company has been able to post quite stable revenues, and consequently, earnings-per-share. With demand exceeding supply, the company's average remaining duration on the containers ordered in 2021 is 13 years, extending the remaining term lease on its total portfolio to 59 months. With the majority of its leases (over 70%) under long-term contracts, the company's financials are essentially guaranteed to remain resilient even under a potentially challenging trading environment in the medium term.

Triton has been growing its dividend annually since its merger in 2016. The latest dividend increase was by 14%. However, as visible in the company's declining share count, management's preferable capital return method has been through stock buybacks. Triton has purchased over 14.5 million common shares since the inception of the program in August 2018. We expect earnings-per-share growth of 5% going forward, led by organic growth and stock buybacks. Additionally, we expect dividend growth of 7% through 2026, assuming a prudent deceleration ahead.

¹ Share count is 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	2021	2026
Avg. P/E	---	---	---	---	---	---	7.9	7.5	7.4	9.6	6.9	9.0
Avg. Yld.	---	---	---	---	---	6.0%	5.0%	6.1%	6.2%	5.3%	4.2%	3.5%

Despite Triton's resilient cash flows, shares have often traded with a below-average earnings multiple. We believe that this is partially due to the company being valued in line with its industry peers, who, unlike Triton, face cyclical revenues, and partially due to the company being headquartered in Bermuda, likely pushing away institutional ownership due to its non-U.S. registry. For these reasons, we expect Triton's P/E ratio to remain humble, at around 9, but still to expand considerably from its currently unreasonable multiple of 6.9. We believe the stock is substantially undervalued. The yield sits at 4.2%, and it's worth noting that Bermuda does not apply a withholding tax on dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

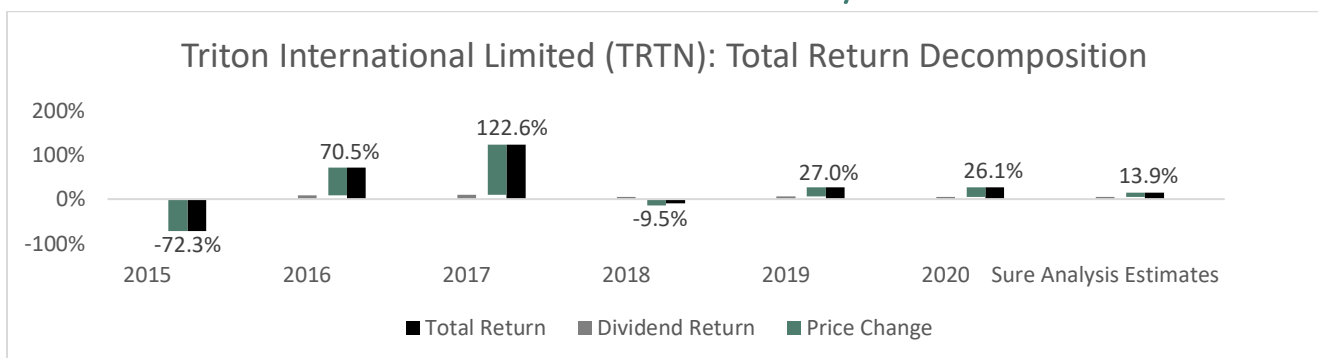
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	40%	46%	46%	51%	29%	32%

Considering its growing capital returns, average payout ratio, and long-term contractually secured cash flows, we believe that Triton's dividend is very safe. Besides, the company would likely suspend its buyback before messing with dividend. While Triton was formed just a few years ago, a look at its pre-merger financials showcases a relatively resilient performance, with sales dropping by only -20% during the Great Financial Crisis, which is quite impressive considering its industry. The company's massively expanded booking amid the frenzy in demand for containers should shield future cash flows. Triton competes with at least six other major intermodal equipment leasing companies. However, the company believes that it can maintain its above-average pricing due to its high level of customer service and long-term relationships. While the company's balance sheet features a massive \$8.2 billion position of long-term debt (twice the company's market cap), interest payments are covered by 6.3 times its operating cash flows. This makes for great coverage, which adds another layer to the company's margin of safety on top of its cash flows' predictability due to their contractual nature.

Final Thoughts & Recommendation

Triton International is an industry leader whose operations are vital for the transportation of goods worldwide. The company's results have been snowballing and are likely to remain very strong based on its containers' current average leasing duration. While the stock gained since our last report, it remains significantly undervalued. We forecast annualized returns of around 13.9% powered by the strong earnings growth visibility, the current yield, aggressive capital returns, and the possibility for a valuation expansion. Hence, we continue rating shares a strong buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	707	708	845	1,201	1,433	1,431	1,394
Gross Profit	---	---	649	653	745	1,105	1,321	1,283	1,229
Gross Margin	---	---	91.8%	92.3%	88.2%	92.0%	92.2%	89.6%	88.2%
SG&A Exp.	---	---	56	53	66	88	80	76	81
D&A Exp.	---	---	258	300	448	594	615	578	556
Operating Profit	---	---	334	302	264	513	696	670	604
Operating Margin	---	---	47.2%	42.6%	31.2%	42.7%	48.6%	46.8%	43.3%
Net Profit	---	---	149	111	(14)	345	350	353	330
Net Margin	---	---	21.1%	15.7%	-1.6%	28.7%	24.4%	24.6%	23.7%
Free Cash Flow	---	---	(377)	51	(145)	(695)	(609)	822	200
Income Tax	---	---	6	4	(0)	(93)	71	28	38

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	4,659	8,714	9,578	10,270	9,643	9,713
Cash & Equivalents	---	---	---	57	113	132	49	62	62
Accounts Receivable	---	---	---	178	520	496	742	624	508
Goodwill & Int. Ass.	---	---	---	---	480	391	330	293	270
Total Liabilities	---	---	---	3,281	6,907	7,368	7,945	7,110	7,147
Accounts Payable	---	---	---	81	143	110	100	117	95
Long-Term Debt	---	---	---	3,153	6,257	6,808	7,454	6,605	6,386
Shareholder's Equity	---	---	---	1,217	1,663	2,076	2,204	2,127	2,011
D/E Ratio	---	---	---	2.59	3.76	3.28	3.38	2.61	2.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	-0.2%	3.8%	3.5%	3.5%	3.4%
Return on Equity	---	---	---	---	-0.9%	18.4%	16.3%	16.3%	15.9%
ROIC	---	---	---	---	-0.2%	4.0%	3.7%	3.7%	3.7%
Shares Out.	---	---	---	---	56	76.2	80.4	74.7	69.3
Revenue/Share	---	---	9.57	9.58	15.08	15.76	17.84	19.16	20.10
FCF/Share	---	---	(5.10)	0.68	(2.59)	(9.13)	(7.58)	11.00	2.88

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

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