



Triton International Limited (TRTN)

Updated February 15th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	14.8%	Market Cap:	\$4.16 B
Fair Value Price:	\$90	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/10/2022
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.5%	Dividend Payment Date:	03/25/2022
Dividend Yield:	4.0%	5 Year Price Target	\$115	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 2021, Triton's total fleet consisted of 4.2 million containers and chassis, representing 7.3 million twenty-foot equivalent units. The company generates around \$1.5 billion in annual revenues and is headquartered in Hamilton, Bermuda.

On February 15th, 2022, Triton reported its Q4-2021 results for the period ending December 31st, 2021. Total leasing revenues during the quarter equaled \$417.2 million, 23.6% higher versus the comparable period last year. A strong increase in goods consumption, particularly in the United States, drove a high level of trade growth. Also aiding results were widespread logistical bottlenecks that slowed container turn-times, leading to incremental demand for containers. Further, limited vessel capacity contributed to a dramatic increase in freight rates and kept Triton's customers highly focused on container availability. As a result, prices for new containers reached new records and very high market leasing rates, leading to Triton achieving another quarter of record performance. Adjusted EPS was \$2.67 compared to \$1.70 in Q4-2020, following economies of scale and declining interest expenses. The company's fleet utilization remained stable quarter-over-quarter, at 99.6%, which is highly impressive. Amid record operating cash flows, Triton repurchased 1.1 million common shares (around 1.6% of its shares outstanding) during Q4 and an additional 0.7 million common shares through February 11th, 2022. With contractually secured cash flows providing great cash flow visibility, management sees outstanding momentum through 2022. Our initial FY2022 EPS estimate comes out at \$10.00

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	(\$0.24)	\$4.55	\$4.38	\$4.57	\$4.18	\$7.26	\$10.00	\$12.76
DPS	---	---	---	---	\$0.90	\$1.80	\$2.01	\$2.08	\$2.13	\$2.36	\$2.60	\$3.65
Shares¹	---	---	---	---	56	76.2	80.4	74.7	67.1	66.1	66.1	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 61 months. With the majority of its leases (72.4%) 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 seen in the company's declining share count, management's preferable capital return method has been through stock buybacks. Triton has purchased approximately 20% of its common shares since the inception of the program in August 2018. We expect earnings-per-share growth of 5% going

¹ Share count is in millions.

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forward, led by organic growth and stock buybacks. Additionally, we expect dividend growth of 7% through 2027, assuming a prudent deceleration ahead.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	7.9	7.5	7.4	9.6	7.6	6.6	9.0
Avg. Yld.	---	---	---	---	6.0%	5.0%	6.1%	6.2%	5.3%	4.2%	4.0%	3.2%

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. In addition, the company is headquartered in Bermuda, which is likely pushing away institutional ownership due to its non-U.S. registry. For these reasons, we expect Triton's P/E ratio to remain low at 9, but we still expect it to expand considerably from its current forward multiple of 6.6. We believe the stock is substantially undervalued. The yield sits at 4.0%, and it's worth noting that Bermuda does not apply a withholding tax on dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

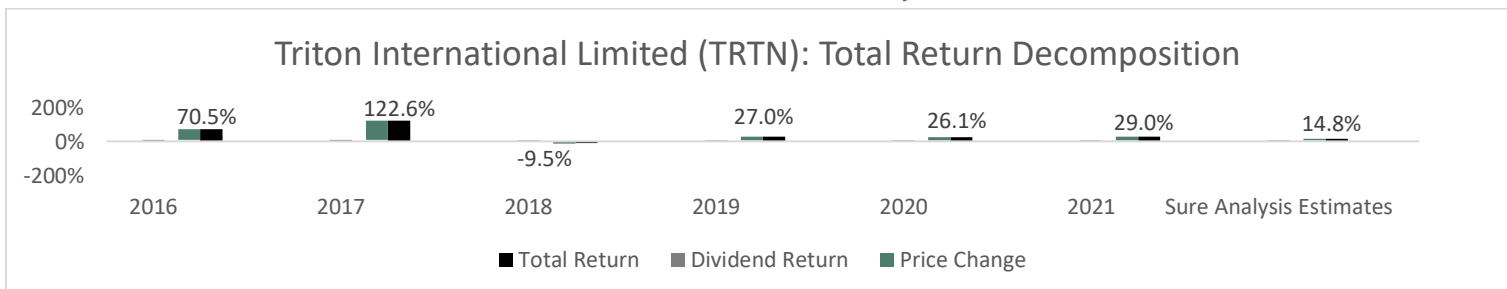
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	40%	46%	46%	51%	33%	26%	29%

Considering its growing capital returns, comfortable payout ratio, and long-term contractually secured cash flows, we believe that Triton's dividend is very safe. Besides, the company would likely suspend buybacks 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. Triton achieved roughly a 40% share of all new leasing transactions in 2021, reflecting the importance customers place on its deep container supply capability. It also further highlights Triton's position as the "go-to" supplier in the container leasing industry. While the company's balance sheet features a massive \$8.6 billion position of long-term debt, interest payments are covered by 6.6 times its operating cash flows.

Final Thoughts & Recommendation

Triton International is an industry leader whose operations are critical for the transportation of goods worldwide. The company's results have been snowballing and are set to remain very strong based on its containers' current average leasing duration. Yet, the stock remains significantly undervalued. We forecast annualized returns of around 14.8%, powered by the strong earnings growth visibility, the current yield, aggressive buybacks, and the possibility for a valuation expansion. 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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