Trane Technologies (TT)

Updated August 3rd, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	$151	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$35.2 B
Fair Value Price:	$121	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/01/22
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	09/30/22
Dividend Yield:	1.8%	**5 Year Price Target**	$162	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $35.2 billion market cap company provides products and services to bring efficient and sustainable climate solutions to buildings, homes, and transportation.

On February 3rd, 2022, Trane Technologies increased its dividend by 13.6% to a quarterly rate of $0.67. It also approved a $3.0 billion buyback program, increasing the total authorization to approximately $4 billion.

On August 3rd, 2022, Trane Technologies released Q2 results for the period ending June 30th, 2022. For the quarter, the company reported $4.6 billion in bookings, up 6% compared to Q2 2021, while revenue equaled $4.2 billion, a 9% increase. The Americas segment, by far the largest portion of the business, saw bookings and revenue increase by 11% and 14%, respectively. Adjusted earnings-per-share equaled $2.16 versus $1.91 in the prior-year period. Revenue growth was driven by robust demand for the company's products and a strong backlog, which now stands at a record $6.5 billion.

Trane Technologies also raised its 2022 guidance, anticipating revenue growth of approximately 11% (previously 9%) and adjusted earnings-per-share between $7.05 and $7.15 (previously $6.95 and $7.15). We have utilized the midpoint of this range in our estimates. The company repurchased $300 million worth of stock during the quarter and has roughly $3.7 billion remaining under current authorizations.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	$5.61	$6.37	$4.46	$6.09	***$7.10***	***$9.50***
DPS	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	$1.96	$2.12	$2.12	$2.36	***$2.68***	***$3.59***
Shares[1]	296	278	263	261	259	249	242	244	243	242	***236***	***220***

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.

[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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Management's guidance implies another solid increase for 2022. This is quite impressive considering the current operating environment. We are forecasting 6% annual growth over the intermediate term.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	12.9	28.1	18.1	16.7	15.6	19.0	16.6	17.8	23.7	30.8	***21.2***	***17.0***
Avg. Yld.	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	2.3%	1.3%	***1.8%***	***2.2%***

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 a similar fair valuation multiple for Trane Technologies, weighing the solid growth prospects with the occasional cyclicality. With shares trading at 21.2 times the midpoint of management's guidance, this implies a valuation headwind. Meanwhile, the dividend – which dates back to 1910 - has room to grow.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	19%	40%	30%	31%	33%	38%	35%	33%	48%	39%	***38%***	***38%***

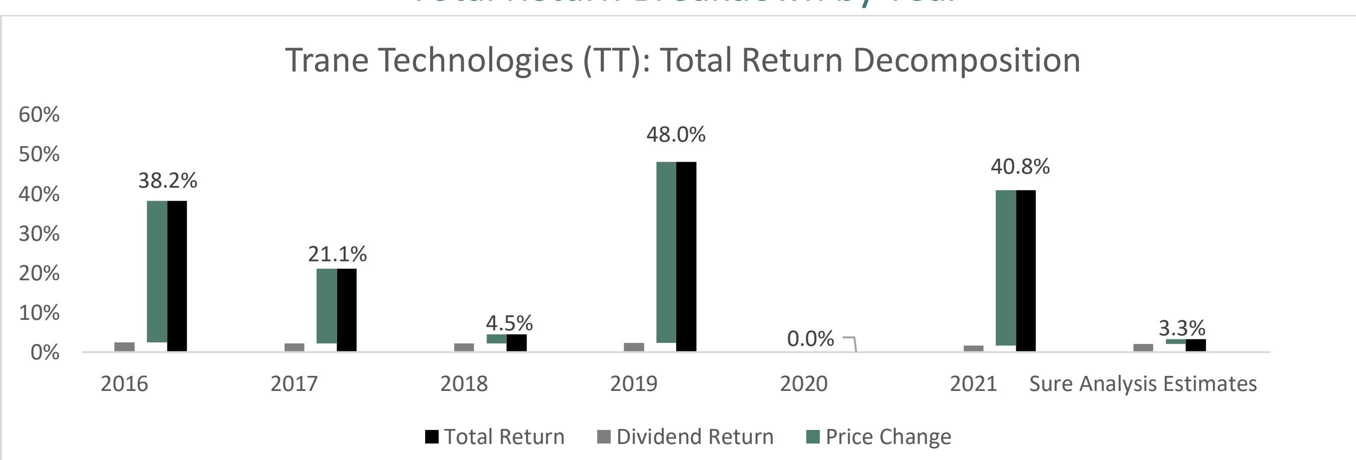
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the Great Recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23, and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 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 $1.0 billion in cash, $6.1 billion in current assets and $17.7 billion in total assets against $5.6 billion in current liabilities and $11.9 billion in total liabilities. Long-term debt stood at $3.8 billion.

Final Thoughts & Recommendation

Shares are down 22.8% year-to-date. 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 interests. The business has performed well since the last recession, but we are mindful of the possibility of lackluster results during lesser times. Regardless, we forecast a thin annualized total return potential of just 3.3% through 2027, driven by a 6% growth and a 1.8% dividend yield, offset by the potential for a heavy valuation headwind. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,988	12,351	12,891	13,301	13,509	4,198	5,668	16,599	12,450	14,140
Gross Profit	3,455	3,628	3,909	4,023	4,201	4,386	4,821	5,147	3,803	4,470
Gross Margin	28.8%	29.4%	30.3%	30.2%	31.1%	31%	30.8%	31.0%	30.5%	31.6%
SG&A Exp.	2,383	2,523	2,504	2,532	2,598	2,721	2,903	3,130	2,271	2,446
D&A Exp.	334	334	332	364	352	353	362	397	294	299
Operating Profit	1,072	1,105	1,405	1,492	1,603	,665	1,917	2,018	1,533	2,023
Op. Margin	8.9%	8.9%	10.9%	11.2%	11.9%	12%	12.2%	12.2%	12.3%	14.3%
Net Profit	1,019	619	932	665	1,476	1,303	1,338	1,411	855	1,423
Net Margin	8.5%	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%	6.9%	10.1%
Free Cash Flow	952	849	740	639	1,339	1,302	1,042	1,665	1,289	1,365
Income Tax	56	189	294	541	282	80	281	354	297	334

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	18482	17658	17299	16718	17397	18173	17915	20,492	18,160	18,060
Cash & Equivalents	708	1937	1705	737	1715	1549	903	1,304	3,290	2,159
Acc. Receivable	1870	2072	2119	2151	2223	2477	2679	2,798	2,202	2,429
Inventories	1144	1166	1359	1411	1386	1555	1678	1,712	1,189	1,531
Goodwill & Int.	9543	9463	9174	9656	9444	9679	9594	10,932	8,629	8,810
Total Liabilities	11253	10527	11253	10838	10679	10966	10850	13,180	11,730	11,790
Accounts Payable	1019	1163	1290	1249	1334	1556	1705	1,809	1,520	1,787
Long-Term Debt	3229	3521	4224	4218	4070	4064	4091	5,573	5,272	4,842
Total Equity	7148	7069	5987	5817	6644	7140	N/A	7,312	6,408	6,256
LTD/E Ratio	0.45	0.50	0.71	0.73	0.61	0.57	N/A	0.76	0.82	0.77

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.5%	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%	4.4%	7.9%
Return on Equity	14.5%	8.7%	14.3%	11.3%	23.7%	18.9%	---	19.7%	12.5%	22.5%
ROIC	9.6%	5.9%	8.9%	6.5%	14.1%	11.8%	---	11.7%	7.0%	12.5%
Shares Out.	296	278	263	261	259	249	250	244	243	242
Revenue/Share	38.60	41.40	47.00	49.67	51.62	55.01	62.65	67.92	51.23	58.34
FCF/Share	3.07	2.85	2.70	2.39	5.12	5.05	4.17	6.81	5.30	5.64

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