# GATX Corporation (GATX)

*Updated November 16th, 2022, by Thomas Richmond*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $109 | **5 Year CAGR Estimate:** | 3.9% | **Market Cap:** | $3.8 B |
| **Fair Value Price:** | $99 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date[1]:** | 12/14/22 |
| **% Fair Value:** | 110% | **5 Year Valuation Multiple Estimate:** | -1.8% | **Dividend Payment Date[1]:** | 12/30/22 |
| **Dividend Yield:** | 1.9% | **5 Year Price Target** | $121 | **Years Of Dividend Growth:** | 17 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Rating:** | Hold |

## Overview & Current Events

GATX Corporation (GATX) is a railcar leasing company that leases tank cars, freight cars and locomotives to companies in the petroleum, chemical, food/agriculture, and transportation industries. The company also offers services related to the assets that they lease, including routine maintenance, interior cleaning, repairs, and regulatory compliance work. The business operates through its 3 segments: Rail North America (70.9% of 2021 sales), Rail International (22.6% of 2021 sales), Portfolio Management (3.8% of 2021 sales), and the business made the remaining 2.7% of 2021's revenue from other sources. GATX has a portfolio of about 147,000 railcars, 565 locomotives, 20,000 tank containers, and an interest in over 400 aircraft spare engines. As a railcar leasing business, management has shared that their capital allocation priorities are to continue investing in core, service-intensive assets (buying more railcars), to keep the balance sheet strong, and to return capital to shareholders through dividends and share buybacks, and in fact - since 2012, the company has returned over $1.5 billion to shareholders. Although rail-related businesses might seem to belong to a dying industry, the rail car leasing market is expected to expand at over 6% annually through 2026, according to Cision. GATX is one of the leading lessors of railcars across many regions and has an advantage in this market due to its size and proven ability to buy and lease these assets.

On October 25th, 2022, GATX reported Q3 2022 results for the period ending September 30th, 2022. The business earned $1.12 in non-GAAP earnings-per-share for the quarter, which rose 0.9% year-over-year and missed analyst estimates by 9 cents. Sales increased 2.4% year-over-year to $321 million, missing analysts' estimates by $3.3 million. Even though the company saw earnings and revenue miss analysts' estimates, the company still expects for 2022's full-year earnings-per-share to be in the upper range of its guidance of $5.60-$6.00.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.88 | $3.59 | $4.34 | $5.30 | $5.75 | $4.72 | $5.20 | $5.51 | $3.54 | $5.07 | ***$5.85*** | ***$7.12*** |
| **DPS** | $1.20 | $1.24 | $1.32 | $1.52 | $1.60 | $1.68 | $1.76 | $1.84 | $1.92 | $2.00 | ***$2.08*** | ***$2.30*** |
| **Shares** | 47 | 46 | 44 | 42 | 39 | 38 | 37 | 35 | 35 | 35 | ***34.5*** | ***33*** |

Over the past 9 years, GATX has seen earnings-per-share grow at an average annualized rate of 6.5%, and over the past 5 years, the business has seen earnings-per-share grow at 4.4% annually. Management's full-year earnings-per-share guidance of $5.60-$6.00, guided our estimate of $5.85 in earnings-per-share for fiscal year 2022. We conservatively forecast that over the next 5 years, earnings-per-share will grow at ~4% annually and that in 2027 earnings-per-share will be around $7.12.

Over the past 9 years, the business has grown dividends at 5.8% annually, and over the past 5 years, dividends have grown at 4.4% annually. Over the next 5 years, we forecast dividend growth of about 2% annually, and we expect the business to continue buying back shares over the intermediate term, as they have done every year since 2013.

[1] Estimated Date.

# GATX Corporation (GATX)

*Updated November 16th, 2022, by Thomas Richmond*

## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 14.5 | 13.7 | 14.4 | 9.9 | 8.0 | 12.8 | 14.4 | 14.0 | 19.3 | 18.7 | ***18.6*** | ***17.0*** |
| **Avg. Yld.** | 2.9% | 2.5% | 2.1% | 2.9% | 3.5% | 2.8% | 2.4% | 2.4% | 2.8% | 2.1% | ***1.9%*** | ***1.9%*** |

Over the past 9 years, GATX has averaged a P/E ratio of 14.0, and over the past 5 years, the business has averaged a P/E ratio of 15.8. We estimate that over the intermediate term, the business will trade for a P/E ratio of around 17, since the business's P/E ratio has been rising over time. Today, the stock offers a low 1.9% dividend yield, which isn't ideal for investors seeking dividend income.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

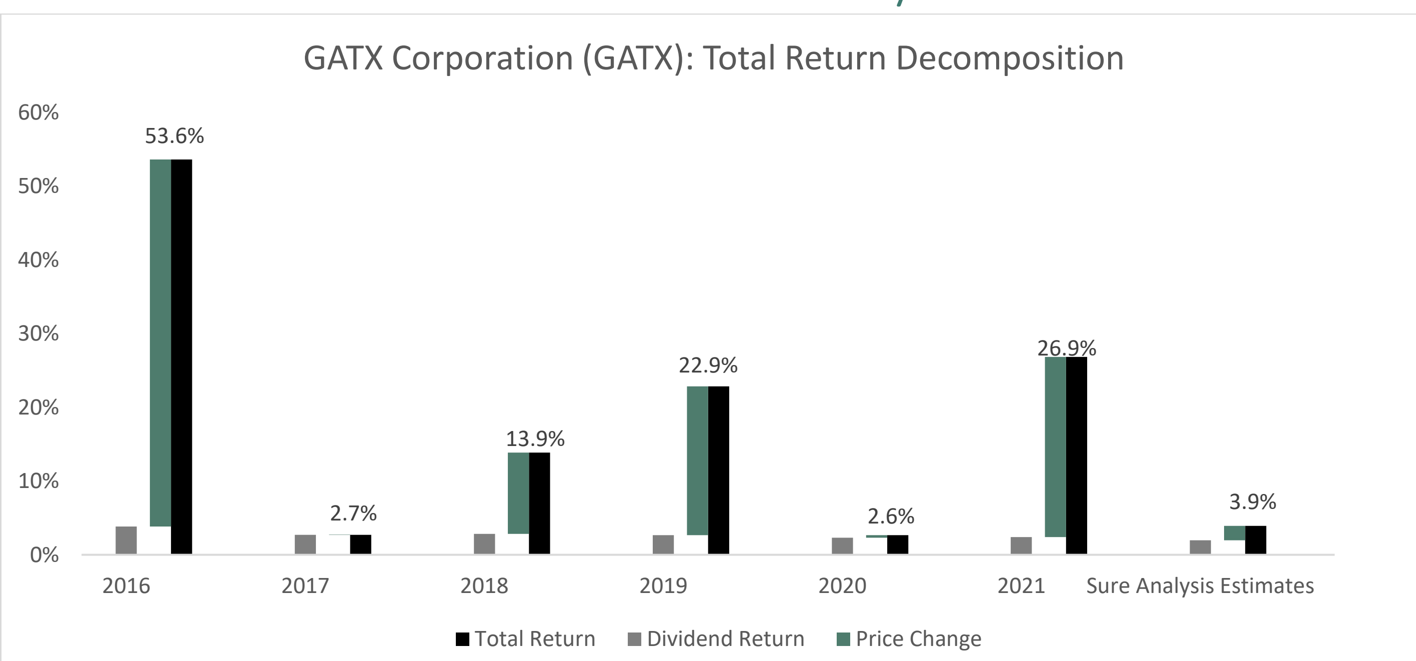
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 42% | 35% | 30% | 29% | 28% | 36% | 34% | 33% | 54% | 39% | ***36%*** | ***32%*** |

The business has averaged a payout ratio of 36.0% over the past 9 years, and 39.3% over the past 5 years. With a low payout ratio below 40%, we expect that the dividend is safe for now and over the intermediate term from any cuts or decreases. The business does have a large amount of long term debt on the balance sheet, but the business has ample liquidity to pay off current liabilities, so we don't think this is a big concern. The business is susceptible to economic downturns, as seen by 2020's earnings-per-share figures, but the company does have a competitive advantage as one of the leading railcar leasing companies in the world.

## Final Thoughts & Recommendation

The GATX Corporation is a company that is a market leader in leasing railcars. We rate this stock as a Hold because total return prospects are expected to come in at just 3.9% annually over the next five years, driven by a 1.9% dividend yield, and an estimated 4% annual increase in earnings-per-share offset by an estimated 1.8% annual decline in the valuation multiple of the stock.

## Total Return Breakdown by Year




Click here to rate and review this research report. Your feedback is important to us.

*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.*

# GATX Corporation (GATX)

*Updated November 16th, 2022, by Thomas Richmond*

## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 1,243 | 1,321 | 1,451 | 1,450 | 1,418 | 1,377 | 1,175 | 1,202 | 1,209 | 1,257 |
| **Gross Profit** | 424 | 453 | 534 | 590 | 586 | 548 | 498 | 493 | 494 | 539 |
| **Gross Margin** | 34.1% | 34.3% | 36.8% | 40.7% | 41.3% | 39.8% | 42.4% | 41.0% | 40.9% | 42.9% |
| **SG&A Exp.** | 160 | 178 | 189 | 192 | 169 | 180 | 183 | 180 | 172 | 198 |
| **D&A Exp.** | 249 | 268 | 287 | 303 | 310 | 323 | 327 | 333 | 343 | 378 |
| **Operating Profit** | 239 | 248 | 316 | 359 | 373 | 333 | 283 | 281 | 287 | 297 |
| **Op. Margin** | 19.2% | 18.8% | 21.8% | 24.8% | 26.3% | 24.2% | 24.0% | 23.4% | 23.7% | 23.6% |
| **Net Profit** | 137 | 169 | 205 | 205 | 257 | 502 | 211 | 211 | 151 | 143 |
| **Net Margin** | 11.0% | 12.8% | 14.1% | 14.2% | 18.1% | 36.5% | 18.0% | 17.6% | 12.5% | 11.4% |
| **Free Cash Flow** | (370) | (405) | (717) | (258) | (83) | (182) | (472) | (261) | (433) | (623) |
| **Income Tax** | 26 | 66 | 76 | 111 | 96 | (244) | 31 | 41 | 37 | 53 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 6,055 | 6,550 | 6,920 | 6,894 | 7,105 | 7,422 | 7,617 | 8,285 | 8,938 | 9,542 |
| **Cash & Equivalents** | 234 | 380 | 210 | 202 | 308 | 297 | 100 | 151 | 292 | 344 |
| **Acc. Receivable** | 88 | 80 | 86 | 69 | 86 | 83 | 87 | 66 | 75 | 70 |
| **Inventories** | 49 | 46 | 52 | 55 | 51 | 57 | 64 | 59 | 64 | 52 |
| **Goodwill & Int.** | 92 | 95 | 86 | 80 | 78 | 86 | 83 | 82 | 144 | 123 |
| **Total Liabilities** | 4,811 | 5,153 | 5,606 | 5,614 | 5,758 | 5,630 | 5,829 | 6,450 | 6,980 | 7,523 |
| **Long-Term Debt** | 3,557 | 3,862 | 4,250 | 4,186 | 4,257 | 4,376 | 4,541 | 4,796 | 5,353 | 5,906 |
| **Total Equity** | 1,244 | 1,397 | 1,314 | 1,280 | 1,347 | 1,793 | 1,788 | 1,835 | 1,957 | 2,019 |
| **LTD/E Ratio** | 2.86 | 2.76 | 3.23 | 3.27 | 3.16 | 2.44 | 2.54 | 2.61 | 2.73 | 2.92 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 2.3% | 2.7% | 3.0% | 3.0% | 3.7% | 6.9% | 2.8% | 2.7% | 1.8% | 1.5% |
| **Return on Equity** | 11.6% | 12.8% | 15.1% | 15.8% | 19.6% | 32.0% | 11.8% | 11.7% | 8.0% | 7.2% |
| **ROIC** | 2.9% | 3.4% | 3.8% | 3.7% | 4.6% | 8.5% | 3.4% | 3.3% | 2.2% | 1.9% |
| **Shares Out.** | 47 | 46 | 44 | 42 | 39 | 38 | 37 | 35 | 35 | 35 |
| **Revenue/Share** | 26.12 | 28.05 | 31.68 | 33.10 | 34.68 | 34.95 | 30.68 | 33.02 | 34.16 | 34.93 |
| **FCF/Share** | (7.78) | (8.59) | (15.64) | (5.89) | (2.04) | (4.61) | (12.31) | (7.18) | (12.22) | (17.30) |

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