



GATX Corporation (GATX)

Updated February 2nd, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$116	5 Year CAGR Estimate:	5.5%	Market Cap:	\$4.0 B
Fair Value Price:	\$114	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	03/02/2023
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date¹:	03/31/2023
Dividend Yield:	1.9%	5 Year Price Target	\$139	Years Of Dividend Growth:	18
Dividend Risk Score:	A	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 (71.3% of 2022 sales), Rail International (21.6% of 2022 sales), Portfolio Management (4.2% of 2022 sales), and the business made the remaining 2.8% of 2022's revenue from other sources. GATX has a portfolio of about 147,000 railcars, 539 locomotives, 20,000 tank containers, and five vessels.

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. Although rail-related businesses might seem to belong to a dying industry, the rail car leasing market is expected to expand at over 4.2% annually through 2025, according to Cision. GATX is one of the leading lessors of railcars across many regions and has an advantage in its market due to its size and proven ability to buy and lease these assets.

On January 24th, 2023, GATX reported Q4 2022 and full-year results for the period ending December 31st, 2022. The business earned \$1.54 in non-GAAP earnings-per-share for the quarter, which fell 2.5% year-over-year but beat analyst estimates by ten cents. Sales increased 0.5% year-over-year to \$322.7 million, missing analysts' estimates by \$4.93 million. Throughout the year, Rail North America and Rail International fleet utilization remained above 99%. GATX's management continues to see strength in the core business into 2023, expecting adjusted (non-GAAP) earnings-per-share to land between \$6.50 and \$6.90 for the year. All earnings-per-share figures in our table are in non-GAAP form.

On January 27th, GATX increased its dividend by 5.8% to a quarterly rate of \$0.55.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.59	\$4.34	\$5.30	\$5.75	\$4.72	\$5.20	\$5.51	\$3.54	\$5.07	\$6.07	\$6.70	\$8.15
DPS	\$1.24	\$1.32	\$1.52	\$1.60	\$1.68	\$1.76	\$1.84	\$1.92	\$2.00	\$2.08	\$2.20	\$2.68
Shares	46	44	42	39	38	37	35	35	35	35	35	33

Over the past 9 years, GATX has seen earnings-per-share grow at an average annualized rate of 6.0%, and over the past 5 years, the business has seen earnings-per-share grow at 5.2% annually. We conservatively forecast that earnings-per-share will grow at ~4% annually over the next 5 years and that in 2028 earnings-per-share will be around \$8.15.

Over the past 9 years, the business has grown dividends at 5.9% annually, and over the past 5 years, dividends have grown at 4.6% annually. Over the next 5 years, we forecast dividend growth of about 4% 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.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.7	14.4	9.9	8.0	12.8	14.4	14	19.3	18.7	17.3	17.2	17.0
Avg. Yld.	2.5%	2.1%	2.9%	3.5%	2.8%	2.4%	2.4%	2.8%	2.1%	2.0%	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 16.7. We estimate that over the intermediate term, the business will trade for a P/E ratio of around 17. We see shares are more or less fairly valued at their current levels. Today, the stock offers a low 1.9% dividend yield, which likely isn't substantial for investors seeking high dividend income, but should contribute to the stock's total returns prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

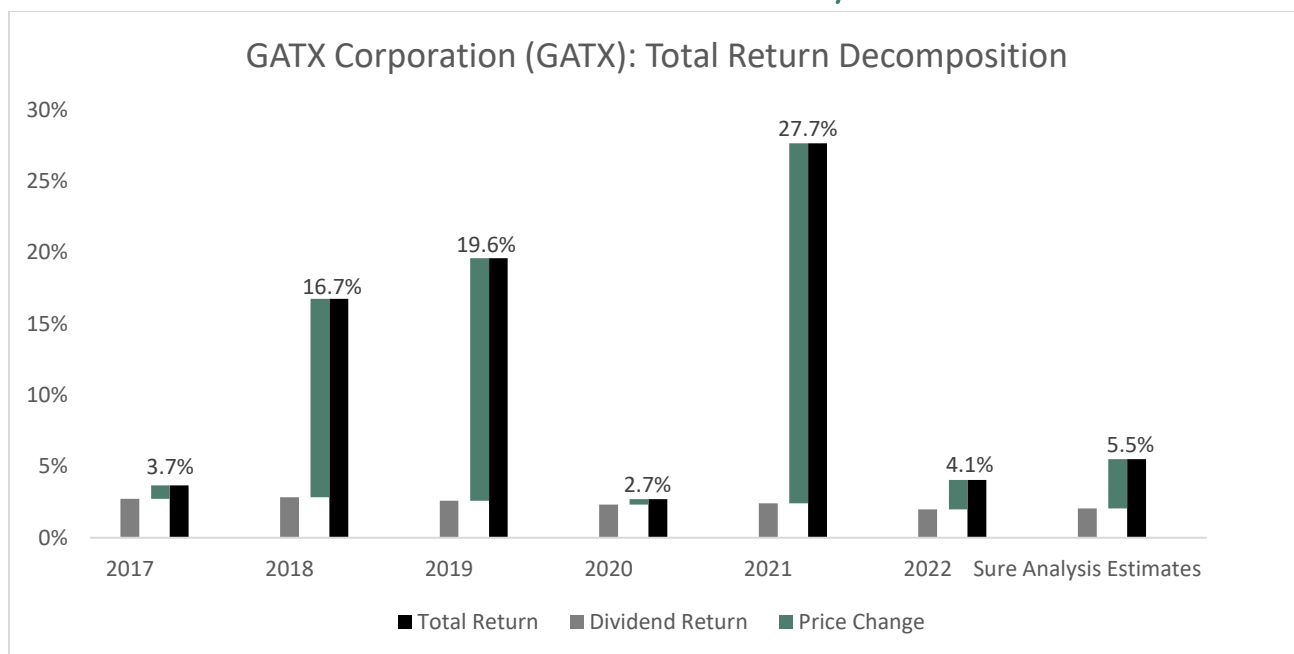
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	30%	29%	28%	36%	34%	33%	54%	39%	34%	33%	33%

The business has averaged a payout ratio of 36% over the past 9 years, and 39% over the past 5 years. With a low payout ratio below 33%, 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 5.5% 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 a slight 0.3% annual decline from multiple contraction.

Total Return Breakdown by Year



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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.

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