Trinity Industries, Inc. (TRN)

Updated February 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$2.03 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	04/13/2023
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	04/28/2023
Dividend Yield:	4.0%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Trinity Industries is a leading provider of rail transportation products and services in North America. The business of the company is classified primarily under two reporting segments: Railcar Leasing, which owns and operates a fleet of railcars and provides third-party fleet leasing, management, and administrative services; and the Rail Products Group, which manufactures and sells railcars and related parts and components and provides railcar maintenance and modification services.

On February 21st, 2023, the company announced results for the fourth quarter for the period ending December 31, 2022. Trinity reported Q4 Non-GAAP EPS of $0.44, missing estimates by $0.03. The company reported revenues of $591.2 million for the quarter, up 144.0% year-over-year. The higher revenues during the quarter were driven by higher external deliveries in the Rail Products Group due to favorable pricing and product mix.

As of December 31, 2022, there was a railcar backlog of $3.9 billion, a significant increase from $1.5 billion on December 31, 2021. Throughout 2022, the Rail Products Group was able to secure orders for a total of 31,905 railcars and deliver 13,315 railcars. In contrast, in 2021, the segment received orders for 13,870 railcars and made deliveries of 8,875 railcars. Moreover, As of December 31, 2022, 97.9% of the 108,440 company-owned railcars in the Leasing Group's lease fleet were utilized, up from a lease fleet utilization of 95.7% of the 106,970 railcars in the fleet as of December 31, 2021.

The management noted that despite encountering unforeseen difficulties with labor, supply chain, and rail service in 2022, the company managed to make progress and expand. Looking forward, the management remains optimistic as the year concluded with a future lease rate differential (FLRD) of 25.1%, which the management views as a good indicator of the robustness of the railcar leasing market. The management also provided forward guidance for the year 2023 and expects EPS to be in the range of $1.50 to $1.70. The company anticipates to deliver around 49% of their backlog during 2023, while some of the backlog is expected to stretch out until as late as 2028, owing to the multi-year order received in the third quarter.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.34	$4.19	$5.08	$2.25	$1.41	$0.70	$1.27	$0.34	$0.56	$0.71	***$1.60***	***$2.35***
DPS	$0.25	$0.38	$0.43	$0.44	$0.50	$0.52	$0.64	$0.76	$0.84	$0.92	***$1.04***	***$1.67***
Shares	163.4	155.7	152.9	152.2	150.9	133.3	119.7	111.2	83.3	81.9	***77.8***	***60.2***

Trinity Industries has been adversely affected by the supply chain disruptions and higher costs after the pandemic outbreak over the past two years, along with implementing the Precision Scheduled Railroading model. As a result, the company's net income declined to $0.56 per share in 2021 as production inefficiencies and increased cost pressures weighed on the company's margins. However, the near-term outlook has improved with the re-opening after COVID lockdowns and increased demand reflected by the current book-to-bill ratio of 5 times. Moreover, in October 2022, the company announced a multi-year contract with GATX, under which Trinity has been contracted to build and deliver 15,000 new tank and freight railcars over a period of six years. Additionally, GATX has the option to add 500 more cars each year. This order is valued at $1.9 billion. In line with the company's guidance and improving demand environment for the TRN we are expecting the company to post an EPS of $1.60 in 2023. We are maintaining our EPS growth forecast of 8% over the next five years, leading to our estimated EPS of $2.35 by 2028. Moreover, the company has a solid record

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of paying dividends despite operating in a cyclical sector as Trinity Industries has paid an increasing dividend for the past 13 years. We do expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 10%, leading to a dividend to $1.67 in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	9.3	9.0	5.6	9.6	20.8	46.5	16.4	60.4	51.0	38.0	***16.3***	***15.0***
Avg. Yld.	1.6%	1.4%	2.1%	2.8%	2.3%	2.2%	3.1%	3.7%	3.0%	3.4%	***4.0%***	***4.7%***

The railcar manufacturer currently trades at a forward P/E of 16.3, considerably lower than its long-term average P/E of 26.7 and the five-year average P/E of 42.5. Even though the declining steel prices and an uptick in demand will benefit the company in the near term, we assign a P/E of 15.0 to the stock, which we believe is a fair reflection of its value. Accordingly, with an EPS of $2.35 and P/E of 15.0 our target price for the stock stands at $35 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

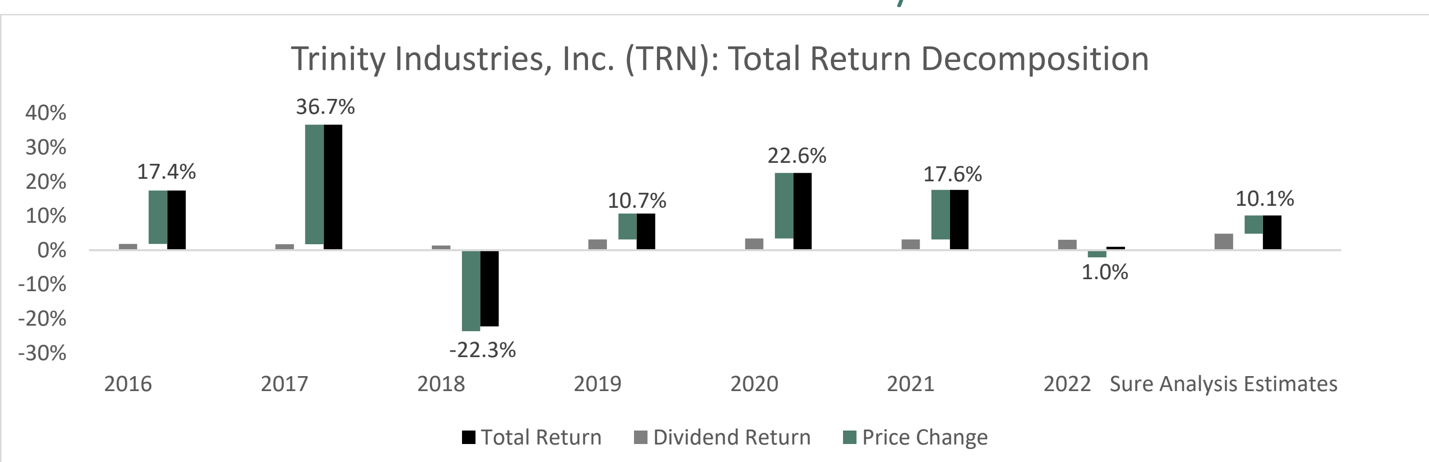
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	11%	9%	8%	20%	35%	74%	50%	224%	150%	130%	***65%***	***98%***

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 71%, and we expect the company to maintain and increase its payout in the future. The demand for the company's product has recovered in the recent quarters and we expect the company to be in a much better position in the future compared to where it is today. In addition, the leasing margins continue to improve in a rising rate environment, and the fleet's utilization ought to be high, driven by solid railcar demand. Nevertheless, a case of hard-landing could adversely affect its performance. The share buybacks by the company have also played a pivotal role in sustaining the high EPS growth rate as well. In December 2022, the company's Board of Directors approved a new share repurchase program. The program allows the company to repurchase a maximum of $250.0 million worth of its common stock.

Final Thoughts & Recommendation

While Trinity Industries runs a capital-intensive cyclical business, we believe that increased bookings and reduced cost pressures will be a positive catalyst to EPS growth. Indeed, Trinity Industries' dividend growth prospects could remain strong throughout the cycle. Hence, we have upgraded the rating to buy premised upon 10.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0% and 4.0% dividend yield, partially offset by a valuation headwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,812	4,365	6,170	6,393	3,090	2,397	2,509	2,752	1,750	1,516
Gross Profit	760	1,043	1,550	1,737	778	622	570	574	422	355
Gross Margin	19.9%	23.9%	25.1%	27.2%	25.2%	26.0%	22.7%	20.9%	24.1%	23.4%
SG&A Exp.	224	291	404	476	314	339	297	217	341	179
D&A Exp.	194	212	245	266	217	230	252	277	259	266
Operating Profit	536	752	1,147	1,260	464	283	274	357	81	176
Op. Margin	14.1%	17.2%	18.6%	19.7%	15.0%	11.8%	10.9%	13.0%	4.6%	11.6%
Net Profit	255	376	678	797	344	703	159	138	(147)	182
Net Margin	6.7%	8.6%	11.0%	12.5%	11.1%	29.3%	6.3%	5.0%	-8.4%	12.0%
Free Cash Flow	58	(69)	355	(90)	242	131	(607)	(817)	(46)	41
Income Tax	134	204	355	426	107	(415)	43	59	(274)	16

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,670	7,313	8,695	8,886	9,125	9,543	7,989	8,701	8,702	8,236
Cash & Equivalents	573	429	888	786	563	779	179	166	132	167
Accounts Rec	390	365	405	370	379	204	277	260	164	228
Inventories	702	815	1,068	943	666	403	525	433	285	433
Goodwill & Int.	240	278	773	754	754	209	209	209	147	154
Total Liabilities	4,532	4,564	5,298	4,837	4,814	4,685	5,427	6,323	6,686	6,939
Accounts Payable	188	216	295	217	156	120	212	204	146	206
Long-Term Debt	3,009	2,948	3,476	3,160	3,025	3,214	4,029	4,882	5,017	5,171
Total Equity	2,053	2,402	2,996	3,654	3,919	4,501	2,211	2,030	1,739	1,030
LTD/E Ratio	1.47	1.23	1.16	0.86	0.77	0.71	1.82	2.40	2.89	5.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.0%	5.4%	8.5%	9.1%	3.8%	7.5%	1.8%	1.6%	-1.7%	2.1%
Return on Equity	13.0%	16.9%	25.1%	24.0%	9.1%	16.7%	4.7%	6.5%	-7.8%	13.1%
ROIC	5.1%	6.9%	10.8%	11.3%	4.7%	9.1%	2.2%	2.0%	-2.1%	2.7%
Shares Out.	163.4	163.4	155.7	152.9	152.2	150.9	133.3	119.7	111.2	83.3
Revenue/Share	24.58	28.55	39.37	42.00	20.79	15.77	17.14	21.62	15.10	14.61
FCF/Share	0.38	(0.45)	2.26	(0.59)	1.63	0.86	(4.14)	(6.41)	(0.40)	0.40

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