Trane Technologies (TT)

Updated May 7th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	$177	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$40.3 B
Fair Value Price:	$143	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/01/23[1]
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	06/30/23
Dividend Yield:	1.7%	**5 Year Price Target**	$191	**Years Of Dividend Growth:**	3
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 $40.3 billion market cap company provides products and services to bring efficient and sustainable climate solutions to buildings, homes, and transportation.

On February 9th, 2023, Trane Technologies raised its dividend by 11.9% to a quarterly rate of $0.75.

On May 3rd, 2023, Trane Technologies released Q1 2023 and full-year results for the period ending March 31st, 2023. For the quarter, the company reported $4.3 billion in bookings, down 1% compared to Q1 2022, while revenue equaled $3.7 billion, a 9% increase. The Americas segment, by far the largest portion of the business, saw bookings and revenue decline by 4% and grow by 8%, respectively. Revenue growth was driven by robust demand for the company's products and a strong backlog, which now stands at a record $7.3 billion – up $400 million from year-end 2022. Adjusted earnings-per-share equaled $1.41, up 26% year-over-year.

Trane Technologies also raised its 2023 guidance, expecting revenue growth of approximately 9% to 10% (up from 7% to 8% previously) and adjusted earnings-per-share between $8.30 and $8.50 (up from $8.20 and $8.50 previously. We have utilized the midpoint of the updated range in our estimates. The company repurchased $300 million worth of stock during the quarter and has roughly $2.9 billion remaining under current authorizations.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.08	$3.33	$3.73	$4.13	$4.52	$5.61	$6.37	$4.46	$6.09	$7.36	***$8.40***	***$11.24***
DPS	$0.84	$1.00	$1.16	$1.36	$1.70	$1.96	$2.12	$2.12	$2.36	$2.68	***$3.00***	***$4.01***
Shares[2]	278	263	261	259	249	242	244	243	242	239	***237***	***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] Estimated dates based on past dividend dates.

[2] In millions.

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Management's guidance implies another solid adjusted earnings-per-share increase for 2023. This is quite impressive considering the current operating environment. We are forecasting 6% annual growth over the intermediate term.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	28.1	18.1	16.7	15.6	19.0	16.6	17.8	23.7	30.8	21.0	***21.0***	***17.0***
Avg. Yld.	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	2.3%	1.3%	1.7%	***1.7%***	***2.1%***

Over the past decade, shares of Ingersoll-Rand traded hands with an average P/E ratio of about 21 times earnings. We are using a modestly humbler fair valuation multiple for Trane Technologies, weighing the solid growth prospects with the occasional cyclicality. Trading at 21 times the midpoint of management's guidance, we believe that the stock is rather overpriced and see notable valuation headwinds ahead. Meanwhile, the dividend – which dates back to 1910 - has room to grow.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Payout	40%	30%	31%	33%	38%	35%	33%	48%	39%	36%	***36%***	***36%***

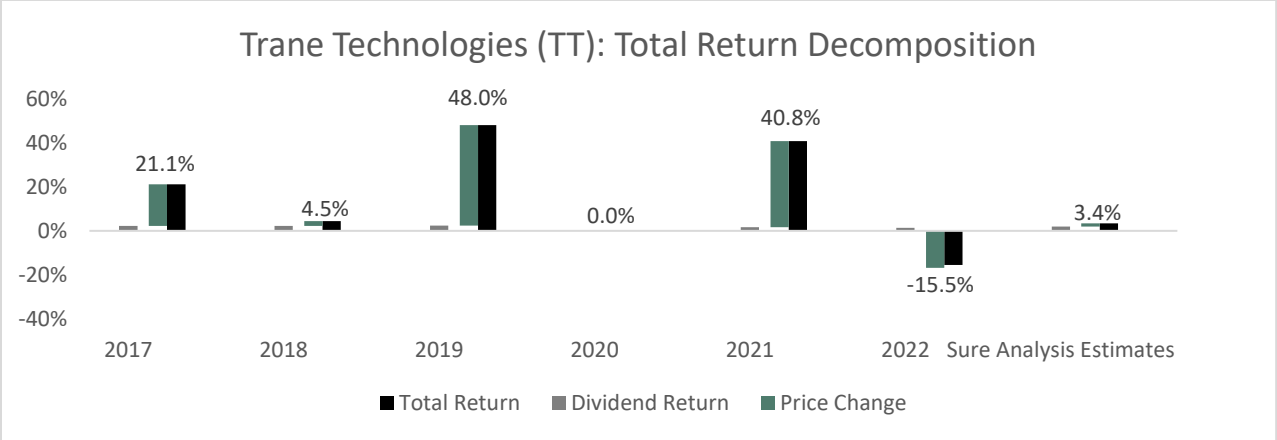
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the Great Recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23, and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 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 $692.9 million in cash, $6.0 billion in current assets and $17.9 billion in total assets against $4.8 billion in current liabilities and $11.9 billion in total liabilities. Long-term debt stood at $4.5 billion.

Final Thoughts & Recommendation

Shares are up 3.1% 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 3.4% through 2028, as a 6% growth in earnings and the 1.7% dividend yield could be offset by heavy valuation headwinds. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	12,351	12,891	13,301	13,509	4,198	5,668	16,599	12,450	14,140	15,990
Gross Profit	3,628	3,909	4,023	4,201	4,386	4,821	5,147	3,803	4,470	4,965
Gross Margin	29.4%	30.3%	30.2%	31.1%	31%	30.8%	31.0%	30.5%	31.6%	31.1%
SG&A Exp.	2,523	2,504	2,532	2,598	2,721	2,903	3,130	2,271	2,446	2,546
D&A Exp.	334	332	364	352	353	362	397	294	299	324
Operating Profit	1,105	1,405	1,492	1,603	,665	1,917	2,018	1,533	2,023	2,419
Op. Margin	8.9%	10.9%	11.2%	11.9%	12%	12.2%	12.2%	12.3%	14.3%	15.1%
Net Profit	619	932	665	1,476	1,303	1,338	1,411	855	1,423	1,756
Net Margin	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%	6.9%	10.1%	11.0%
Free Cash Flow	849	740	639	1,339	1,302	1,042	1,665	1,289	1,365	1,212
Income Tax	189	294	541	282	80	281	354	297	334	376

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	17658	17299	16718	17397	18173	17915	20,492	18,160	18,060	18,080
Cash & Equivalents	1937	1705	737	1715	1549	903	1,304	3,290	2,159	1,220
Acc. Receivable	2072	2119	2151	2223	2477	2679	2,798	2,202	2,429	2,780
Inventories	1166	1359	1411	1386	1555	1678	1,712	1,189	1,531	1,994
Goodwill & Int.	9463	9174	9656	9444	9679	9594	10,932	8,629	8,810	8,768
Total Liabilities	10527	11253	10838	10679	10966	10850	13,180	11,730	11,790	11,980
Accounts Payable	1163	1290	1249	1334	1556	1705	1,809	1,520	1,787	2,092
Long-Term Debt	3521	4224	4218	4070	4064	4091	5,573	5,272	4,842	4,836
Total Equity	7069	5987	5817	6644	7140	N/A	7,312	6,408	6,256	6,089
LTD/E Ratio	0.50	0.71	0.73	0.61	0.57	N/A	0.76	0.82	0.77	0.79

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%	4.4%	7.9%	9.7%
Return on Equity	8.7%	14.3%	11.3%	23.7%	18.9%	---	19.7%	12.5%	22.5%	28.5%
ROIC	5.9%	8.9%	6.5%	14.1%	11.8%	---	11.7%	7.0%	12.5%	15.9%
Shares Out.	278	263	261	259	249	250	244	243	242	235
Revenue/Share	41.40	47.00	49.67	51.62	55.01	62.65	67.92	51.23	58.34	68.08
FCF/Share	2.85	2.70	2.39	5.12	5.05	4.17	6.81	5.30	5.64	5.16

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

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