



Trinity Industries, Inc. (TRN)

Updated December 19th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.8%	Market Cap:	\$2.9 B
Fair Value Price:	\$26	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	01/11/2024
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	01/31/2024
Dividend Yield:	4.1%	5 Year Price Target	\$37	Years Of Dividend Growth:	14
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Trinity Industries (TRN) 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 November 2nd, 2023, the company announced results for the third quarter of 2023. Trinity reported Q3 non-GAAP EPS of \$0.26, missing estimates by \$0.02. The company reported revenues of \$821 million for the quarter, up 65.3% year-over-year. TRN's third-quarter results showcased a remarkable 65% revenue increase compared to last year, as highlighted by CEO Jean Savage, signaling a solid performance trajectory. The Railcar Leasing and Management Services Group saw a 14% revenue boost year-over-year, fueled by sustained re-pricing benefits and contributions from recent acquisitions. The company's forward-looking metrics remain robust, with a forward lease rate differential (FLRD) of 26.6% and a high lease fleet utilization rate of 98.1%. Despite challenges like border closures affecting railcar deliveries, which were 14% lower than expected, the Rail Products Group segment still improved its operating margins to 5.2%, excluding insurance recovery gains. Looking ahead, TRN anticipates further margin improvements in the fourth quarter, driven by ongoing efficiency enhancements and increased deliveries.

In its 2023 guidance, TRN forecasts significant industry activity, expecting approximately 45,000 railcar deliveries, indicating robust market demand. The company plans substantial investments, earmarking \$250 to \$350 million for expanding and modernizing its lease fleet and allocating \$40 to \$50 million for manufacturing capital expenditures to enhance efficiency. Finally, TRN anticipates an EPS of \$1.20 to \$1.35, focusing on its core business operations and excluding non-recurring items. This guidance highlights TRN's strategic financial and operational objectives for the year, reflecting its commitment to growth and efficiency in a dynamic market.

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	\$1.28	\$1.87
DPS	\$0.25	\$0.38	\$0.43	\$0.44	\$0.50	\$0.52	\$0.64	\$0.76	\$0.84	\$0.92	\$1.12	\$1.80
Shares¹	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.

In line with the company's midpoint guidance and improving demand environment for the TRN, we expect the company to post EPS of \$1.28 in 2023. We maintain our EPS growth forecast of 8% over the next five years, leading to our estimated EPS of \$1.87 by 2028. Moreover, the company has a solid record of paying dividends despite operating in a

¹ Shares 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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cyclical sector, as Trinity Industries has paid increasing dividends for the past 13 years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 10%, leading to a dividend of \$1.80 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	21.2	20.0
Avg. Yld.	1.6%	1.4%	2.1%	2.8%	2.3%	2.2%	3.1%	3.7%	3.0%	3.4%	4.1%	4.8%

The railcar manufacturer currently trades at a forward P/E of 21.2, considerably lower than the 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 20.0 to the stock, which we believe is a fair reflection of its value. Accordingly, with an EPS of \$1.87 and P/E of 20.0, our target price for the stock stands at \$37 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

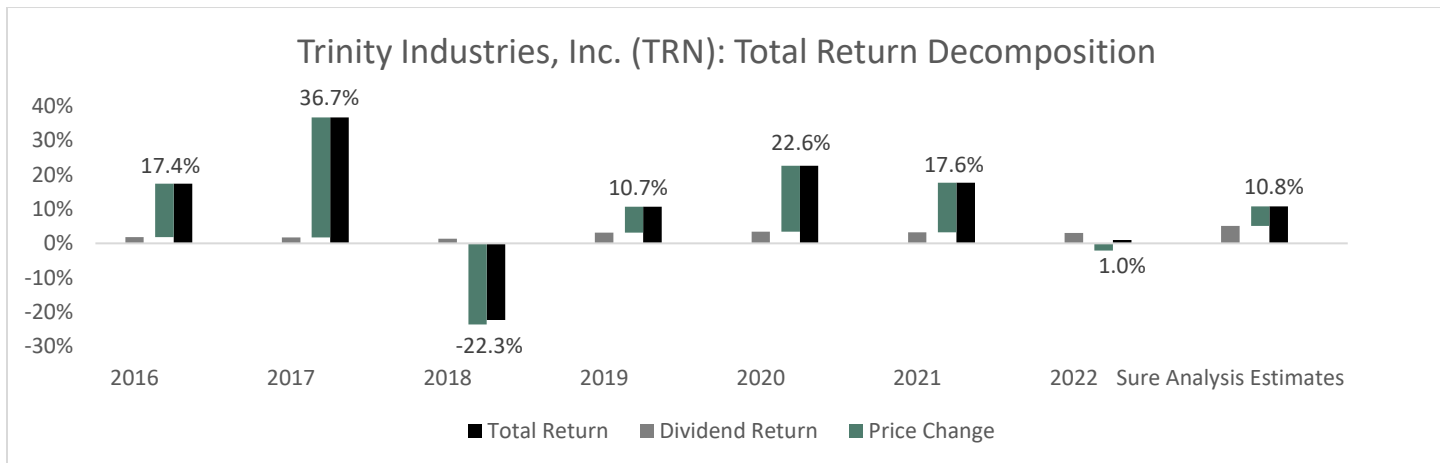
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	11%	9%	8%	20%	35%	74%	50%	224%	150%	130%	88%	96%

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 recent quarters, and we expect the company to be in a much better position in the future than 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. 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 of its common stock. In the first nine months of 2023, the company reported \$64 million in share repurchase activity.

Final Thoughts & Recommendation

While Trinity Industries runs a capital-intensive cyclical business, we believe increased bookings and reduced cost pressures will be a positive catalyst for EPS growth. Indeed, Trinity Industries' dividend growth prospects could remain strong throughout the cycle. Hence, we maintain our buy rating premised upon 10.8% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 4.1% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,365	6,170	6,393	3,090	2,397	2,509	2,752	1,750	1,516	1,977
Gross Profit	1,043	1,550	1,737	778	622	570	574	422	355	368
Gross Margin	23.9%	25.1%	27.2%	25.2%	26.0%	22.7%	20.9%	24.1%	23.4%	18.6%
SG&A Exp.	291	404	476	314	339	297	217	341	179	185
D&A Exp.	212	245	266	217	230	252	277	259	266	276
Operating Profit	752	1,147	1,260	464	283	274	357	81	176	182
Op. Margin	17.2%	18.6%	19.7%	15.0%	11.8%	10.9%	13.0%	4.6%	11.6%	9.2%
Net Profit	376	678	797	344	703	159	138	(147)	182	60
Net Margin	8.6%	11.0%	12.5%	11.1%	29.3%	6.3%	5.0%	-8.4%	12.0%	3.0%
Free Cash Flow	(69)	355	(90)	242	131	(607)	(817)	(46)	41	(980)
Income Tax	204	355	426	107	(415)	43	59	(274)	16	28

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,313	8,695	8,886	9,125	9,543	7,989	8,701	8,702	8,236	8,723
Cash & Equivalents	429	888	786	563	779	179	166	132	167	80
Accounts Rec	365	405	370	379	204	277	260	164	228	324
Inventories	815	1,068	943	666	403	525	433	285	433	629
Goodwill & Int.	278	773	754	754	209	209	209	147	154	196
Total Liabilities	4,564	5,298	4,837	4,814	4,685	5,427	6,323	6,686	6,939	7,455
Accounts Payable	216	295	217	156	120	212	204	146	206	288
Long-Term Debt	2,948	3,476	3,160	3,025	3,214	4,029	4,882	5,017	5,171	5,608
Total Equity	2,402	2,996	3,654	3,919	4,501	2,211	2,030	1,739	1,030	1,012
LTD/E Ratio	1.23	1.16	0.86	0.77	0.71	1.82	2.40	2.89	5.02	5.53

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.4%	8.5%	9.1%	3.8%	7.5%	1.8%	1.6%	-1.7%	2.1%	0.71%
Return on Equity	16.9%	25.1%	24.0%	9.1%	16.7%	4.7%	6.5%	-7.8%	13.1%	5.9%
ROIC	6.9%	10.8%	11.3%	4.7%	9.1%	2.2%	2.0%	-2.1%	2.7%	0.90%
Shares Out.	163.4	155.7	152.9	152.2	150.9	133.3	119.7	111.2	83.3	84.20
Revenue/Share	28.55	39.37	42.00	20.79	15.77	17.14	21.62	15.10	14.61	23.48
FCF/Share	(0.45)	2.26	(0.59)	1.63	0.86	(4.14)	(6.41)	(0.40)	0.40	-11.63

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

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