GATX Corporation (GATX)

Updated January 23rd, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$127	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$4.49 B
Fair Value Price:	$120	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	03/01/2024
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date[1]:**	03/29/2024
Dividend Yield:	1.7%	**5 Year Price Target**	$153	**Years Of Dividend Growth:**	18
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**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% of 2023 sales), Rail International (22% of 2023 sales), Portfolio Management (5% of 2023 sales), and the business made the remaining 3% of 2023's revenue from other sources. GATX has a portfolio of about 145,000 railcars, 544 locomotives, 22,000 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 5.4% annually through 2031, according to TMR. 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 23rd, 2024, GATX reported its Q4 2023 and full year results for the period ending December 31st, 2023. The business earned $1.74 in non-GAAP earnings-per-share for the quarter, which was a nearly 13% increase year-over-year and beat analyst estimates by 16 cents. Sales increased 14.3% year-over-year to $368.7 million, beating analysts' estimates by $3.38 million. Throughout the quarter, Rail North America and Rail International fleet utilization remained above 99%. For the year, adjusted EPS came in at $7.07, up 16.5% compared to last year.

GATX's management continues to see strength in the core business through 2024, now expecting its FY2024 adjusted (non-GAAP) earnings-per-share to land between $7.30 and $7.70. We have utilized the midpoint of this range in our estimates. All EPS figures in our table are in non-GAAP form.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.34	$5.30	$5.75	$4.72	$5.20	$5.51	$3.54	$5.07	$6.07	$7.07	***$7.50***	***$9.57***
DPS	$1.32	$1.52	$1.60	$1.68	$1.76	$1.84	$1.92	$2.00	$2.08	$2.20	***$2.20***	***$2.81***
Shares	44	42	39	38	37	35	35	35	35	36	***36***	***33***

Over the past decade, GATX has seen earnings-per-share grow at an average annualized rate of 5.6%, and over the past five years, the business has seen earnings-per-share grow at 6.4% annually. We conservatively forecast that earnings-per-share will grow at ~5% annually over the next 5 years and that in 2029 earnings-per-share will be around $9.57.

Over the past decade, the business has also grown dividends at 5.8% annually, and over the past five years, dividends have grown at 3.6% annually. Over the next 5 years, we forecast dividend growth of about 5% annually, and we expect the business to continue buying back shares over the intermediate term, as they have done in most years in the past.

[1] Estimated Date.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.4	9.9	8.0	12.8	14.4	14.0	19.3	18.7	17.3	14.1	***16.9***	***16.0***
Avg. Yld.	2.1%	2.9%	3.5%	2.8%	2.4%	2.4%	2.8%	2.1%	2.0%	2.0%	***1.7%***	***1.8%***

Over the past decade, GATX has averaged a P/E ratio of 14.3, and over the past five years, the stock 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 16. We believe shares are more or less fairly valued at their current levels. Today, the stock offers a low 1.7% dividend yield, which likely isn't substantial for investors seeking high dividend income, especially during the current rising-rates market environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

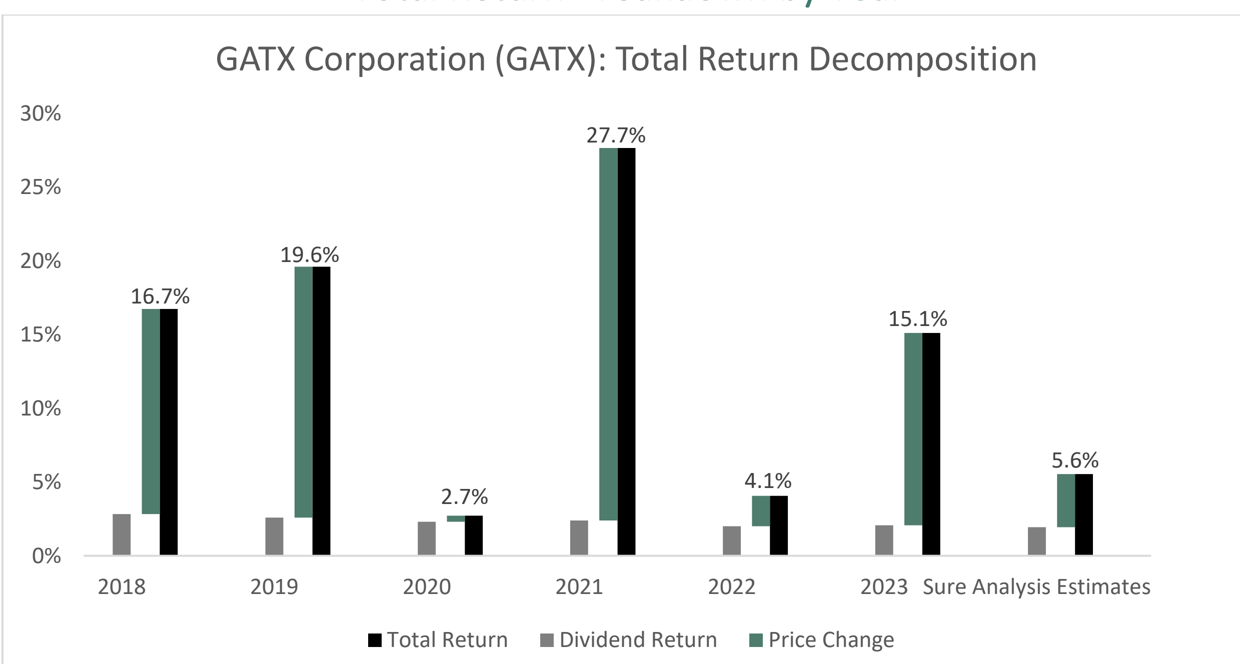
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	29%	28%	36%	34%	33%	54%	39%	34%	31%	***29%***	***29%***

The business has averaged a payout ratio of 35% over the past decade, and 38% over the past five years. With a low payout ratio of just under 30%, we believe 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 5.6% annually over the next five years. This projection is driven by the 1.7% yield, an estimated 5% annual increase in earnings-per-share, and a modest 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,321	1,451	1,450	1,418	1,377	1,175	1,202	1,209	1,257	1,273
Gross Profit	453	534	590	586	548	498	493	494	539	573
Gross Margin	34.3%	36.8%	40.7%	41.3%	39.8%	42.4%	41.0%	40.9%	42.9%	45.0%
SG&A Exp.	178	189	192	169	180	183	180	172	198	195
D&A Exp.	268	287	303	310	323	327	333	343	378	371
Operating Profit	248	316	359	373	333	283	281	287	297	340
Op. Margin	18.8%	21.8%	24.8%	26.3%	24.2%	24.0%	23.4%	23.7%	23.6%	26.7%
Net Profit	169	205	205	257	502	211	211	151	143	156
Net Margin	12.8%	14.1%	14.2%	18.1%	36.5%	18.0%	17.6%	12.5%	11.4%	12.3%
Free Cash Flow	(405)	(717)	(258)	(83)	(182)	(472)	(261)	(433)	(623)	(722)
Income Tax	66	76	111	96	(244)	31	41	37	53	55

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,550	6,920	6,894	7,105	7,422	7,617	8,285	8,938	9,542	10,070
Cash & Equivalents	380	210	202	308	297	100	151	292	344	304
Acc. Receivable	80	86	69	86	83	87	66	75	70	71
Inventories	46	52	55	51	57	64	59	64	52	60
Goodwill & Int.	95	86	80	78	86	83	82	144	123	117
Total Liabilities	5,153	5,606	5,614	5,758	5,630	5,829	6,450	6,980	7,523	8,042
Long-Term Debt	3,862	4,250	4,186	4,257	4,376	4,541	4,796	5,353	5,906	6,449
Total Equity	1,397	1,314	1,280	1,347	1,793	1,788	1,835	1,957	2,019	3,177
LTD/E Ratio	2.76	3.23	3.27	3.16	2.44	2.54	2.61	2.73	2.92	3.18

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	3.0%	3.0%	3.7%	6.9%	2.8%	2.7%	1.8%	1.5%	1.6%
Return on Equity	12.8%	15.1%	15.8%	19.6%	32.0%	11.8%	11.7%	8.0%	7.2%	7.7%
ROIC	3.4%	3.8%	3.7%	4.6%	8.5%	3.4%	3.3%	2.2%	1.9%	1.9%
Shares Out.	46	44	42	39	38	37	35	35	35	36
Revenue/Share	28.05	31.68	33.10	34.68	34.95	30.68	33.02	34.16	34.93	35.46
FCF/Share	(8.59)	(15.64)	(5.89)	(2.04)	(4.61)	(12.31)	(7.18)	(12.22)	(17.30)	(20.12)

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