GATX Corporation (GATX)

Updated October 23rd, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$4.90 B
Fair Value Price:	$125	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	12/13/2024
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date[1]:**	12/31/2024
Dividend Yield:	1.7%	**5 Year Price Target**	$160	**Years Of Dividend Growth:**	19
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 October 22nd, 2024, GATX reported its Q3 2024 results for the period ending September 30th, 2024. GATX released adjusted EPS of $2.50 for the quarter, up from $1.44 last year. In fact, the company beat analyst estimates by 54 cents. Revenues increased 12.6% year-over-year to $405.4 million, beating analysts' estimates by $13.75 million. Throughout the quarter, Rail North America and Rail International fleet utilization remained above 99%.

GATX's management continues to see strength in the core business through the year, updated its FY2024 adjusted (non-GAAP) EPS estimate to land between $7.50 and $7.70 (up from $7.30 to $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	***$7.60***	***$9.70***
DPS	$1.32	$1.52	$1.60	$1.68	$1.76	$1.84	$1.92	$2.00	$2.08	$2.20	***$2.32***	***$2.96***
Shares	44	42	39	38	37	35	35	35	35	36	***36***	***33***

Over the past decade, GATX has seen notable fluctuations in its EPS, reflecting shifts in the railcar leasing industry and macroeconomic conditions. Strong performance in 2015 ($5.30) and 2016 ($5.75) was driven by high railcar demand and favorable lease renewals, particularly in North America. Yet, a cyclical downturn in the rail market led to a decline in EPS to $4.72 in 2017. Recovery came in 2018 ($5.20) and 2019 ($5.51) as GATX capitalized on improved fleet utilization and rising lease rates.

The pandemic in 2020 hit the company hard, reducing EPS to $3.54, as global economic activity slowed and railcar demand weakened. GATX rebounded in 2021 ($5.07) with increased railcar deliveries and better market conditions. In 2022 ($6.07) and 2023 ($7.07), GATX achieved record highs, benefiting from strong lease rate escalations, higher fleet

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[1] Estimated Date.

utilization, and effective capital allocation, positioning itself well in a recovering economy. We conservatively forecast that earnings-per-share will grow at ~5% annually over the next 5 years and that in 2029 EPS will be around $9.70.

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.

We expect GATX's growth to be fueled by the increasing demand for rail transport, which is largely driven by the rise of e-commerce and the expansion of global supply chains.

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	***18.1***	***16.5***
Avg. Yld.	2.1%	2.9%	3.5%	2.8%	2.4%	2.4%	2.8%	2.1%	2.0%	2.0%	***1.7%***	***1.9%***

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 stock will trade for a P/E ratio of around 16.5. We view shares are modestly overvalued 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 interest rate environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

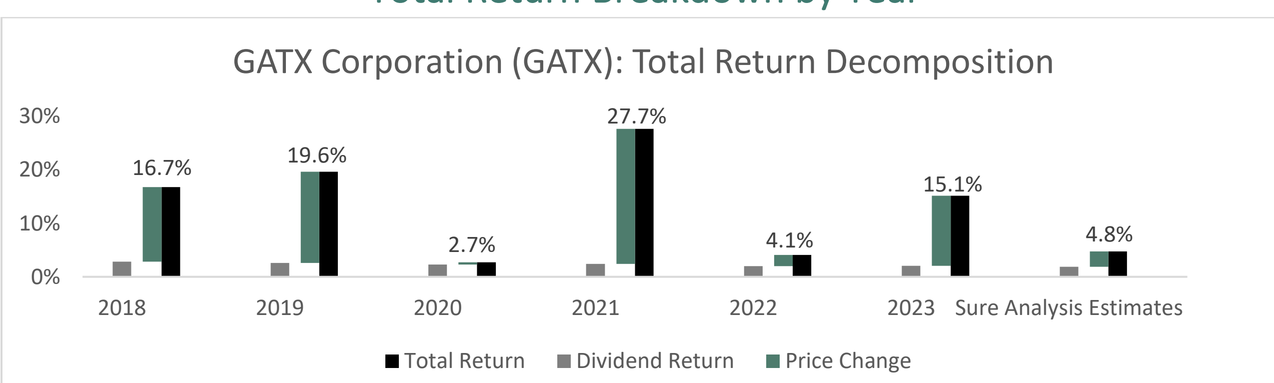
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	29%	28%	36%	34%	33%	54%	39%	34%	31%	***31%***	***31%***

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 31%, we believe that the dividend is safe for now and over the intermediate term from any cuts or decreases. GATX does have a large amount of long term debt on the balance sheet, but it 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 GATX does have a competitive advantage as one of the leading railcar leasing companies in the world. Specifically, its extensive and diversified fleet coupled with its deep industry expertise and long term leases positions GATX nicely to navigate market fluctuations and maintain its strong market presence.

Final Thoughts & Recommendation

The GATX Corporation is a company that is a market leader in leasing railcars. Despite its overall qualities, however, we rate the stock as a hold because total return prospects are expected to come in at just 4.8% 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



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,451	1,450	1,418	1,377	1,175	1,202	1,209	1,257	1,273	1,411
Gross Profit	534	590	586	548	498	493	494	539	573	647
Gross Margin	36.8%	40.7%	41.3%	39.8%	42.4%	41.0%	40.9%	42.9%	45.0%	45.9%
SG&A Exp.	189	192	169	180	183	180	172	198	195	213
D&A Exp.	287	303	310	323	327	333	343	378	371	392
Operating Profit	316	359	373	333	283	281	287	297	340	388
Op. Margin	21.8%	24.8%	26.3%	24.2%	24.0%	23.4%	23.7%	23.6%	26.7%	27.5%
Net Profit	205	205	257	502	211	211	151	143	156	259
Net Margin	14.1%	14.2%	18.1%	36.5%	18.0%	17.6%	12.5%	11.4%	12.3%	18.4%
Free Cash Flow	(717)	(258)	(83)	(182)	(472)	(261)	(433)	(623)	(722)	(1,145)
Income Tax	76	111	96	(244)	31	41	37	53	55	59

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,920	6,894	7,105	7,422	7,617	8,285	8,938	9,542	10,070	11,330
Cash & Equivalents	210	202	308	297	100	151	292	344	304	451
Acc. Receivable	86	69	86	83	87	66	75	70	71	88
Inventories	52	55	51	57	64	59	64	52	60	74
Goodwill & Int.	86	80	78	86	83	82	144	123	117	120
Total Liabilities	5,606	5,614	5,758	5,630	5,829	6,450	6,980	7,523	8,042	9,053
Long-Term Debt	4,250	4,186	4,257	4,376	4,541	4,796	5,353	5,906	6,449	7,399
Total Equity	1,314	1,280	1,347	1,793	1,788	1,835	1,957	2,019	3,177	2,273
LTD/E Ratio	3.23	3.27	3.16	2.44	2.54	2.61	2.73	2.92	3.18	3,255

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	3.0%	3.7%	6.9%	2.8%	2.7%	1.8%	1.5%	1.6%	2.4%
Return on Equity	15.1%	15.8%	19.6%	32.0%	11.8%	11.7%	8.0%	7.2%	7.7%	12.1%
ROIC	3.8%	3.7%	4.6%	8.5%	3.4%	3.3%	2.2%	1.9%	1.9%	2.9%
Shares Out.	44	42	39	38	37	35	35	35	36	36
Revenue/Share	31.68	33.10	34.68	34.95	30.68	33.02	34.16	34.93	35.46	39.52
FCF/Share	(15.64)	(5.89)	(2.04)	(4.61)	(12.31)	(7.18)	(12.22)	(17.30)	(20.12)	(32.06)

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