Trane Technologies (TT)

Updated October 30th, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	$376	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$84.9 B
Fair Value Price:	$266	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	12/06/24
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	12/31/24
Dividend Yield:	0.9%	**5 Year Price Target**	$429	**Years Of Dividend Growth:**	4
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 climate innovator. Via its leading Trane and Thermo King brands, the $84.9 billion market cap company provides products and services to bring efficient and sustainable climate solutions to buildings, homes, and transportation.

On October 30th, 2024, Trane Technologies posted its Q3 results for the period ending September 30th, 2024. For the quarter, the company reported $5.2 billion in bookings, up 5% compared to Q3 2023, while revenue equaled $5.4 billion, a year-over-year increase of 11%. All growth was organic.

The Americas segment, by far the largest portion of the business, saw bookings and revenue increase by 8% and 15%, respectively. Revenue growth was driven by strong volume growth and positive price realization and productivity, which more than offset inflation. Overall, demand for the company's products is resilient, evident in the substantial backlog, which now stands at $7.2 billion. Adjusted earnings-per-share equaled $3.37, up 21% year-over-year. As of the end of October, Trane has repurchased $1 billion worth of its stock year-to-date.

Trane Technologies raised its 2024 guidance, expecting revenue growth of about 11% (up from 10% previously) and adjusted earnings-per-share of about $11.10 (up from $10.80 previously). We have utilized the updated target our estimates. It implies year-over-year growth of 22.8%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.33	$3.73	$4.13	$4.52	$5.61	$6.37	$4.46	$6.09	$7.36	$9.04	***$11.10***	***$17.88***
DPS	$1.00	$1.16	$1.36	$1.70	$1.96	$2.12	$2.12	$2.36	$2.68	$3.00	***$3.36***	***$5.41***
Shares[1]	263	261	259	249	242	244	243	242	235	231	***228***	***210***

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.

Management's guidance implies another solid adjusted earnings-per-share increase for 2024. We are forecasting 10% annual growth over the intermediate term, expecting Trane's rock-solid backlog to keep powering its results.

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[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.1	16.7	15.6	19	16.6	17.8	23.7	30.8	21.0	20.1	***33.9***	***24.0***
Avg. Yld.	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	2.3%	1.3%	1.7%	1.7%	***0.9%***	***1.3%***

Over the past decade, shares of Ingersoll-Rand traded hands with an average P/E ratio of about 20 times earnings. We are using a modestly higher fair valuation multiple for Trane Technologies, weighing the solid recent results and robust growth prospects. Still, trading at nearly 34 times management's adjusted EPS estimate, the stock appears overpriced. It could lead to valuation headwinds ahead. Meanwhile, the dividend – which dates back to 1910 - has room to grow.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	31%	33%	38%	35%	33%	48%	39%	36%	33%	***30%***	***30%***

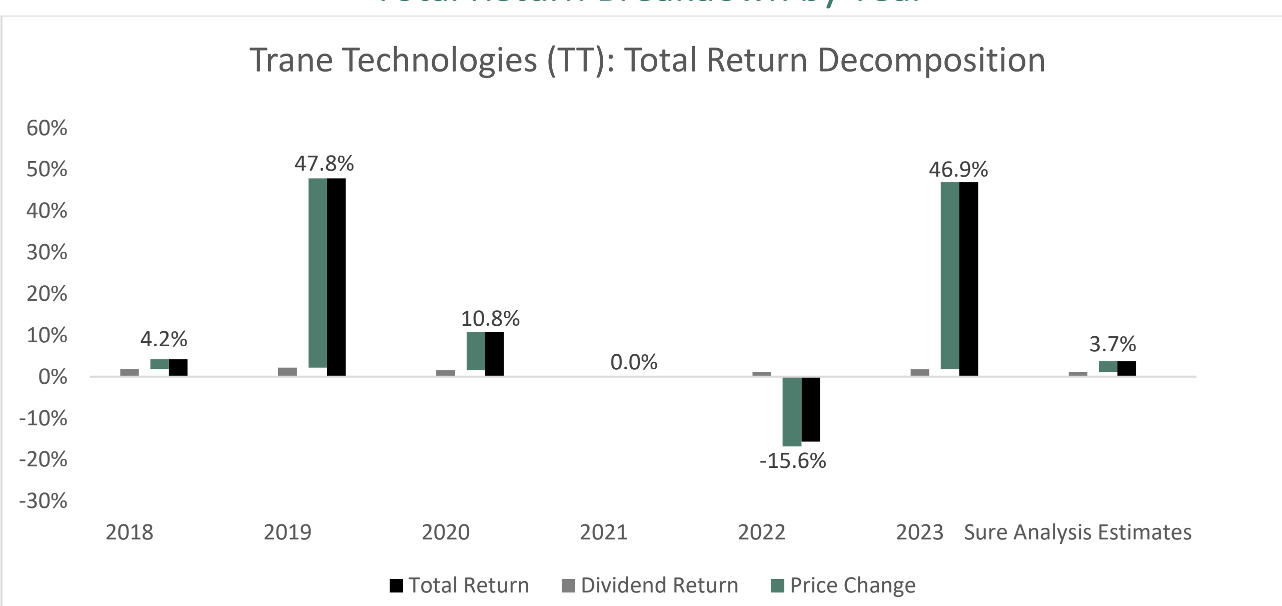
Trane Technologies' competitive advantages are its strong brands and investments in product innovation. During the Great Recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23, and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 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 most recent quarter, Trane Technologies held $1.47 billion in cash, $8.1 billion in current assets and $20.9 billion in total assets against $6.6 billion in current liabilities and $13.3 billion in total liabilities. Long-term debt stood at nearly $4.3 billion.

Final Thoughts & Recommendation

Trane Technologies seems positioned for an excellent year. The business continues to perform well, and 2024 is poised to be another year of record revenues and profits. Still, we remain mindful of the possibility of a valuation compression, which could hamper total returns over the medium-term. Due to these factors resulting in weak return prospects, we rate Trane Technologies a sell. Nevertheless, given Trane's ongoing momentum, we recognize that our estimate might be rather conservative.

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	12,891	13,301	13,509	4,198	5,668	16,599	12,450	14,140	15,990	17,680
Gross Profit	3,909	4,023	4,201	4,386	4,821	5,147	3,803	4,470	4,965	5,857
Gross Margin	30.3%	30.2%	31.1%	31%	30.8%	31.0%	30.5%	31.6%	31.1%	33.1%
SG&A Exp.	2,504	2,532	2,598	2,721	2,903	3,130	2,271	2,446	2,546	2,963
D&A Exp.	332	364	352	353	362	397	294	299	324	348
Operating Profit	1,405	1,492	1,603	,665	1,917	2,018	1,533	2,023	2,419	2,894
Op. Margin	10.9%	11.2%	11.9%	12%	12.2%	12.2%	12.3%	14.3%	15.1%	16.4%
Net Profit	932	665	1,476	1,303	1,338	1,411	855	1,423	1,756	2,024
Net Margin	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%	6.9%	10.1%	11.0%	11.4%
Free Cash Flow	740	639	1,339	1,302	1,042	1,665	1,289	1,365	1,212	2,089
Income Tax	294	541	282	80	281	354	297	334	376	498

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17299	16718	17397	18173	17915	20,492	18,160	18,060	18,080	19,390
Cash & Equivalents	1705	737	1715	1549	903	1,304	3,290	2,159	1,220	1,095
Acc. Receivable	2119	2151	2223	2477	2679	2,798	2,202	2,429	2,780	2,957
Inventories	1359	1411	1386	1555	1678	1,712	1,189	1,531	1,994	2,152
Goodwill & Int.	9174	9656	9444	9679	9594	10,932	8,629	8,810	8,768	9,535
Total Liabilities	11253	10838	10679	10966	10850	13,180	11,730	11,790	11,980	12,370
Accounts Payable	1290	1249	1334	1556	1705	1,809	1,520	1,787	2,092	2,025
Long-Term Debt	4224	4218	4070	4064	4091	5,573	5,272	4,842	4,836	4,780
Total Equity	5987	5817	6644	7140	N/A	7,312	6,408	6,256	6,089	6,995
LTD/E Ratio	0.71	0.73	0.61	0.57	N/A	0.76	0.82	0.77	0.79	0.68

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%	4.4%	7.9%	9.7%	10.8%
Return on Equity	14.3%	11.3%	23.7%	18.9%	---	19.7%	12.5%	22.5%	28.5%	30.9%
ROIC	8.9%	6.5%	14.1%	11.8%	---	11.7%	7.0%	12.5%	15.9%	17.8%
Shares Out.	263	261	259	249	250	244	243	242	235	2301
Revenue/Share	47.00	49.67	51.62	55.01	62.65	67.92	51.23	58.34	68.08	76.63
FCF/Share	2.70	2.39	5.12	5.05	4.17	6.81	5.30	5.64	5.16	9.06

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