Triton International Limited (TRTN)

Updated February 17th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$3.6 B
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/11/2021
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	03/26/2021
Dividend Yield:	4.2%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	9.6%

Overview & Current Events

Triton International is the world's largest lessor of intermodal containers. The company was formed on July 12th, 2016, through an all-stock merger between Triton Container International Limited ("TCIL") and TAL International Group ("TAL"). The company's intermodal containers are large, standardized steel boxes used to transport freight by ship, rail, or truck. Due to the handling efficiencies they provide, intermodal containers are the primary means by which many goods and materials are shipped internationally. At of the end of 2020, Triton's total fleet consisted of 3.7 million containers and chassis, representing 6.2 million twenty-foot equivalent units. The company generates around $1.3 billion in annual sales and is headquartered in Hamilton, Bermuda.

On February 16th, 2021, Triton reported its Q4 and FY2020 results for the quarter ended December 31st, 2020. Total leasing revenues during the quarter equaled $337.3 million, 1.8% higher vs. the comparable period last year. Robust sales were supported by strong leasing demand and exceptional sale prices for Triton's used containers. While trade activity in the first half of 2020 was weak due to lingering impacts from the trade dispute between the U.S. and China and the onset of the COVID-19 pandemic, the resumption of growth in Q4 points towards normalization returning in Triton's operations. Adjusted EPS was $1.70 compared to $1.07 in Q4-2019, amid significant cuts in operating expenses and higher trading margins. At the end of the quarter, the company's fleet utilization reached 98.9%, and as of February 9th, 2021 that figure had reached 99.1%, further displaying the company's gradual recovery going forward.

Management did not provide specific guidance; however, Q1 EPS is expected to be slightly higher than Q4-2020's EPS and FY2021 EPS is expected to be "well above" its FY2020 adjusted EPS. We are remaining cautious for now, forecasting $4.50 in earnings-per-share for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	-$0.24	$4.55	$4.38	$4.57	$4.18	***$4.50***	***$5.74***
DPS	---	---	---	---	---	$0.90	$1.80	$2.01	$2.08	$2.13	***$2.28***	***$3.20***
Shares[1]	---	---	---	---	---	56	76.2	80.4	74.7	67.1	***64.0***	***57.0***

Despite Triton operating in arguably one of the most cyclical industries, with global shipping subject to multiple potential disruptions, the company has been able to post quite stable revenues, and consequently, earnings-per-share. As of December 31st, 2020, the company's leases had an average remaining duration of 49 months, assuming no leases are renewed. With the majority of its leases (73.8%) under long-term contracts, the company's financials should remain relatively resilient even under a challenging trading environment in the medium term.

Triton has been growing its dividend annually since its merger in 2016. The latest dividend increase was by 9.6%. However, as visible in the company's declining share count, management's preferable capital return method has been through stock buybacks. Triton has purchased over 13.9 million common shares since the inception of the program in August 2018. We expect earnings-per-share growth of 5% going forward, led by organic growth and stock buybacks, and dividend growth of 7%.

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[1] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	---	---	---	---	---	---	7.9	7.5	7.4	9.6	***12.0***	***12.0***
Avg. Yld.	---	---	---	---	---	6.0%	5.0%	6.1%	6.2%	5.3%	***4.2%***	***4.6%***

Despite Triton's resilient cash flows, shares have often traded with a below average earnings multiple. We believe that this is partially due to the company being valued in-line with its industry peers, which unlike Triton, face cyclical revenues, and partially due to the company being headquartered to Bermuda, likely pushing away institutional ownership due to its non-U.S. registry. For these reasons, we expect Triton's P/E ratio to remain near its current levels, at around 12, implying no impact from the valuation. The yield sits at 4.2% and it's worth noting that Bermuda does not apply a withholding tax on dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	40%	46%	46%	51%	***51%***	***56%***

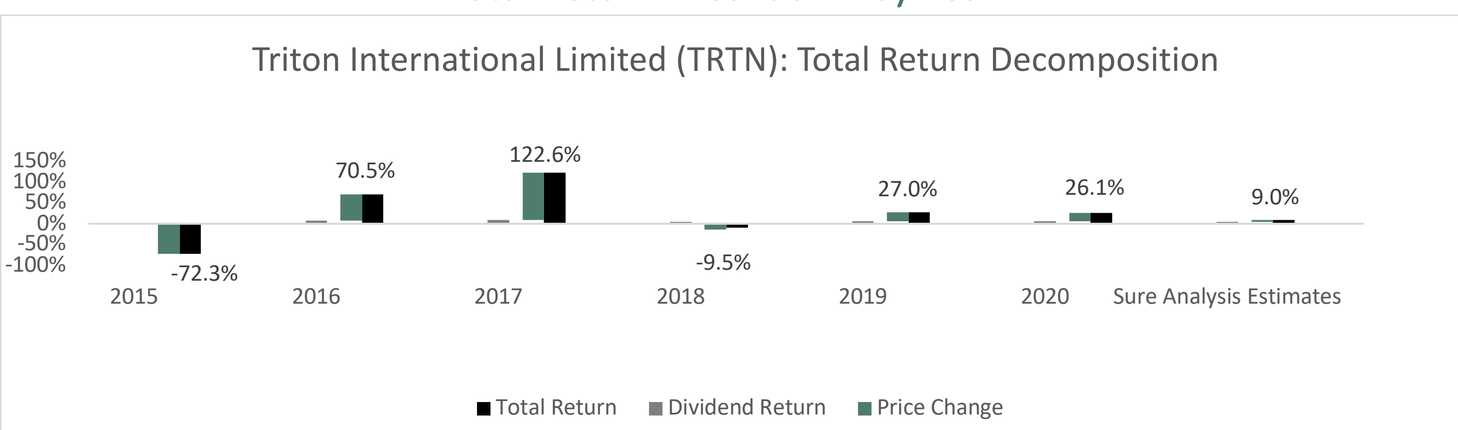
Considering its growing capital returns, average payout ratio, and long-term contractually secured cash flows, we believe that Triton's dividend is safe. While Triton was formed just a few years ago, a look at its pre-merger financials showcases a relatively resilient performance, with sales dropping by only -20% during the Great Financial Crisis, which is quite impressive considering its industry.

Triton competes with at least six other major intermodal equipment leasing companies. However, the company believes that it can maintain its above-average pricing due to its high level of customer service and long-term relationships. While the company's balance sheet features a massive $6.4 billion position of long-term debt (twice the company's market cap), interest payments are covered by 2.17 times its operating cash flows. This is not ample coverage, but enough considering the contractual nature of Triton's cash flows, which add another layer to the company's margin of safety.

Final Thoughts & Recommendation

Triton International is an industry leader whose operations are vital for the transportation of goods worldwide. The company's resilience was proven during the ongoing pandemic, with its most recent quarter posting revenue growth. With a fair valuation, we forecast annualized returns of around 9.0% in the medium term, boosted by management's aggressive capital returns. With a solid yield in the current environment of ultra-low rates and the potential for FY2021 to be higher than our estimates, shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	707	708	845	1,201	1,433	1,431
Gross Profit	---	---	---	649	653	745	1,105	1,321	1,283
Gross Margin	---	---	---	91.8%	92.3%	88.2%	92.0%	92.2%	89.6%
SG&A Exp.	---	---	---	56	53	66	88	80	76
D&A Exp.	---	---	---	258	300	448	594	615	578
Operating Profit	---	---	---	334	302	264	513	696	670
Operating Margin	---	---	---	47.2%	42.6%	31.2%	42.7%	48.6%	46.8%
Net Profit	---	---	---	149	111	(14)	345	350	353
Net Margin	---	---	---	21.1%	15.7%	-1.6%	28.7%	24.4%	24.6%
Free Cash Flow	---	---	---	(377)	51	(145)	(695)	(609)	822
Income Tax	---	---	---	6	4	(0)	(93)	71	28

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	4,659	8,714	9,578	10,270	9,643
Cash & Equivalents	---	---	---	---	57	113	132	49	62
Accounts Receivable	---	---	---	---	178	520	496	742	624
Goodwill & Int. Ass.	---	---	---	---	---	480	391	330	293
Total Liabilities	---	---	---	---	3,281	6,907	7,368	7,945	7,110
Accounts Payable	---	---	---	---	81	143	110	100	117
Long-Term Debt	---	---	---	---	3,153	6,257	6,808	7,454	6,605
Shareholder's Equity	---	---	---	---	1,217	1,663	2,076	2,204	2,127
D/E Ratio	---	---	---	---	2.59	3.76	3.28	3.38	2.61

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	-0.2%	3.8%	3.5%	3.5%
Return on Equity	---	---	---	---	---	-0.9%	18.4%	16.3%	16.3%
ROIC	---	---	---	---	---	-0.2%	4.0%	3.7%	3.7%
Shares Out.	---	---	---	---	---	56	76.2	80.4	74.7
Revenue/Share	---	---	---	9.57	9.58	15.08	15.76	17.84	19.16
FCF/Share	---	---	---	(5.10)	0.68	(2.59)	(9.13)	(7.58)	11.00

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