



Triton International Limited (TRTN)

Updated July 28th, 2022 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|------------|
| Current Price: | \$64 | 5 Year CAGR Estimate: | 16.0% | Market Cap: | \$4.05 B |
| Fair Value Price: | \$92 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 09/07/2022 |
| % Fair Value: | 69% | 5 Year Valuation Multiple Estimate: | 7.7% | Dividend Payment Date: | 09/22/2022 |
| Dividend Yield: | 4.1% | 5 Year Price Target | \$117 | Years Of Dividend Growth: | 6 |
| Dividend Risk Score: | C | Retirement Suitability Score: | B | Rating | Buy |

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. Per its latest filings, Triton's total fleet consisted of containers and chassis representing over 7 million twenty-foot equivalent units. The company generates around \$1.7 billion in annual revenues and is headquartered in Hamilton, Bermuda.

On July 28th, 2022, Triton reported its Q2-2022 results for the period ending June 30th, 2022. Total leasing revenues during the quarter equaled \$421.6 million, 14% higher than the comparable period last year. Revenues were once again driven by healthy goods consumption, high levels of trade growth, and enduring logistical bottlenecks that slowed container turn-times, leading to additional demand for containers. Amid consistently limited vessel capacity, freight rates remained elevated as Triton's customers focused on container availability. As a result, the company's increased fleet remained highly occupied, leading to Triton achieving another quarter of record profitability. Accordingly, the company's fleet utilization remained exceptionally high, at 99.4%,

Adjusted EPS came in at \$2.92 compared to \$2.14 in Q2-2021, following economies of scale and lower interest expenses. Following record operating cash flows, Triton repurchased 1.83 million common shares (2.8% of shares) during Q2 and 850K shares from July 1st to July 26th (1.3% of shares). The stock repurchase program was again boosted by \$200 million. With contractually secured cash flows providing great cash flow visibility, management sees its momentum lasting. With all developments accounted for, we are raising our FY2022 EPS estimate from \$11.00 to \$11.50.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|------|------|------|------|----------|--------|--------|--------|--------|--------|----------------|----------------|
| EPS | --- | --- | --- | --- | (\$0.24) | \$4.55 | \$4.38 | \$4.57 | \$4.18 | \$7.26 | \$11.50 | \$14.68 |
| DPS | --- | --- | --- | --- | \$0.90 | \$1.80 | \$2.01 | \$2.08 | \$2.13 | \$2.36 | \$2.60 | \$3.65 |
| Shares¹ | --- | --- | --- | --- | 56 | 76.2 | 80.4 | 74.7 | 67.1 | 66.1 | 63.4 | 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. With demand exceeding supply, the company's average remaining duration on the containers ordered in 2021 was 13 years, extending the remaining term lease on its total portfolio just under 80 months. With the majority of its leases (80% of CEU) under long-term contracts, the company's financials are essentially guaranteed to remain resilient even under a potentially 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 14%. However, as seen in the company's declining share count, management's preferable capital return method has been through stock buybacks. Triton has purchased approximately 21.5% of its common shares since the inception of the program in August 2018. We expect earnings-per-share growth of

¹ Share count is in millions.

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5% going forward, led by organic growth and stock buybacks. Additionally, we expect dividend growth of 7% through 2027, assuming a prudent deceleration ahead.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | --- | --- | --- | --- | --- | 7.9 | 7.5 | 7.4 | 9.6 | 7.6 | 5.5 | 8.0 |
| Avg. Yld. | --- | --- | --- | --- | 6.0% | 5.0% | 6.1% | 6.2% | 5.3% | 4.2% | 4.1% | 3.1% |

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, who, unlike Triton, face cyclical revenues. In addition, the company is headquartered in Bermuda, which is likely pushing away institutional ownership due to its non-U.S. registry. For these reasons, we expect Triton's P/E ratio to remain low at 8, but we still expect it to expand considerably from its current multiple of 5.5. We believe the stock is substantially undervalued. The yield sits at 4.1%, and it's worth noting that Bermuda does not apply a withholding tax on dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

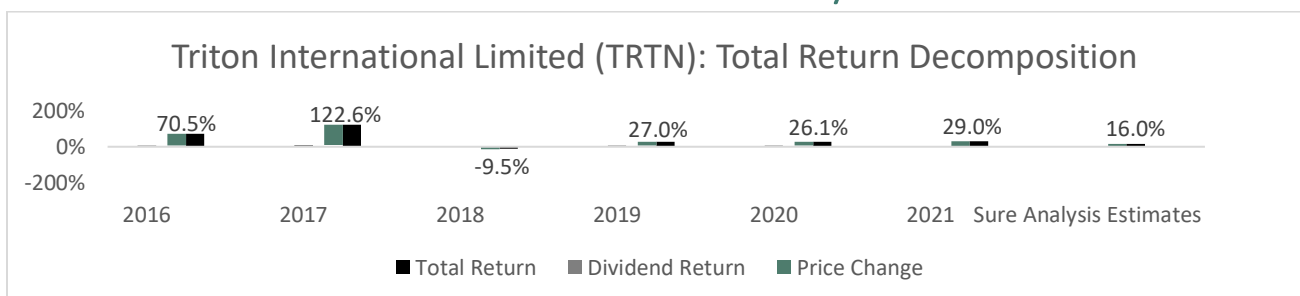
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | --- | --- | --- | --- | --- | 40% | 46% | 46% | 51% | 33% | 23% | 25% |

Considering its growing capital returns, comfortable payout ratio, and long-term contractually secured cash flows, we believe that Triton's dividend is very safe. Besides, the company would likely suspend buybacks before messing with dividend. 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. The company's massively expanded booking amid the frenzy in demand for containers should shield future cash flows. 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. Triton achieved roughly a 40% share of all new leasing transactions in 2021, reflecting the importance customers place on its deep container supply capability. It also further highlights Triton's position as the "go-to" supplier in the container leasing industry. While the company's balance sheet features a massive \$8.41 billion position of long-term debt, interest payments are covered by nearly 10 times its operating cash flows.

Final Thoughts & Recommendation

Triton International is an industry leader whose operations are critical for the transportation of goods worldwide. The company's results have been snowballing and are set to remain very strong based on its containers' current average leasing duration. Yet, the stock remains significantly undervalued. We forecast annualized returns of around 16%, driven by the strong earnings growth visibility, a 4.1% yield, aggressive buybacks, and the possibility for a steep valuation expansion. We continue rating shares a strong buy.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|------|-------|-------|-------|-------|-------|-------|-------|--------|
| Revenue | --- | 707 | 708 | 845 | 1,201 | 1,433 | 1,431 | 1,394 | 1,784 |
| Gross Profit | --- | 649 | 653 | 745 | 1,105 | 1,321 | 1,283 | 1,229 | 800 |
| Gross Margin | --- | 91.8% | 92.3% | 88.2% | 92.0% | 92.2% | 89.6% | 88.2% | 44.8% |
| SG&A Exp. | --- | 56 | 53 | 66 | 88 | 80 | 76 | 81 | 89 |
| D&A Exp. | --- | 258 | 300 | 448 | 594 | 615 | 578 | 556 | 626 |
| Operating Profit | --- | 334 | 302 | 264 | 513 | 696 | 670 | 604 | 713 |
| Operating Margin | --- | 47.2% | 42.6% | 31.2% | 42.7% | 48.6% | 46.8% | 43.3% | 40.0% |
| Net Profit | --- | 149 | 111 | (14) | 345 | 350 | 353 | 330 | 530 |
| Net Margin | --- | 21.1% | 15.7% | -1.6% | 28.7% | 24.4% | 24.6% | 23.7% | 29.7% |
| Free Cash Flow | --- | (377) | 51 | (145) | (695) | (609) | 822 | 200 | -2,029 |
| Income Tax | --- | 6 | 4 | (0) | (93) | 71 | 28 | 38 | 50 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|------|------|-------|-------|-------|--------|-------|-------|--------|
| Total Assets | --- | --- | 4,659 | 8,714 | 9,578 | 10,270 | 9,643 | 9,713 | 12,640 |
| Cash & Equivalents | --- | --- | 57 | 113 | 132 | 49 | 62 | 62 | 106 |
| Accounts Receivable | --- | --- | 178 | 520 | 496 | 742 | 624 | 508 | 295 |
| Goodwill & Int. Ass. | --- | --- | --- | 480 | 391 | 330 | 293 | 270 | 254 |
| Total Liabilities | --- | --- | 3,281 | 6,907 | 7,368 | 7,945 | 7,110 | 7,147 | 9,579 |
| Accounts Payable | --- | --- | 81 | 143 | 110 | 100 | 117 | 95 | 500 |
| Long-Term Debt | --- | --- | 3,153 | 6,257 | 6,808 | 7,454 | 6,605 | 6,386 | 8,547 |
| Shareholder's Equity | --- | --- | 1,217 | 1,663 | 2,076 | 2,204 | 2,127 | 2,011 | 2,335 |
| LTD/E Ratio | --- | --- | 2.59 | 3.76 | 3.28 | 3.38 | 2.61 | 2.49 | 2.80 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|------|--------|------|--------|--------|--------|-------|-------|--------|
| Return on Assets | --- | --- | --- | -0.2% | 3.8% | 3.5% | 3.5% | 3.4% | 4.7% |
| Return on Equity | --- | --- | --- | -0.9% | 18.4% | 16.3% | 16.3% | 15.9% | 24.4% |
| ROIC | --- | --- | --- | -0.2% | 4.0% | 3.7% | 3.7% | 3.7% | 5.2% |
| Shares Out. | --- | --- | --- | 56 | 76.2 | 80.4 | 74.7 | 69.3 | 67 |
| Revenue/Share | --- | 9.57 | 9.58 | 15.08 | 15.76 | 17.84 | 19.16 | 20.10 | 26.60 |
| FCF/Share | --- | (5.10) | 0.68 | (2.59) | (9.13) | (7.58) | 11.00 | 2.88 | -30.26 |

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

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