



Triton International Limited (TRTN)

Updated February 14th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	9.3%	Market Cap:	\$4.0 B
Fair Value Price:	\$77	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/09/2023
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	03/24/2022
Dividend Yield:	4.1%	5 Year Price Target	\$89	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating	Hold

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 February 14th, 2023, Triton reported its Q4-2022 and full-year results for the period ending December 31st, 2022. Total leasing revenues during the quarter equaled \$416.3 million, flat compared to the prior-year period. This was due to Triton's contractually secured leases, whose multi-year time frame resulted in flat revenues over the past four quarters.

With the majority of its containers employed under long-term leases, fleet utilization remained exceptionally high at 98.4%. EPS came in at \$2.63 compared to \$2.68 in Q4-2021, but this was due to higher income from the sale of assets last year. For the year, Triton achieved another year of record EPS, which landed at \$11.25, up 55% compared to fiscal 2021. EPS benefited from Triton serial share repurchases. The share count was reduced by 13.8% over the past year. Subsequent to the quarter's end, the company continued to repurchase stock, repurchasing another 0.6 million shares. While contractually secured cash flows should continue generating robust operating cash flows in fiscal 2023, we expect EPS to decline due to lower proceeds from asset sales as container prices have declined. Our initial estimate is \$10.25.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	(\$0.24)	\$4.55	\$4.38	\$4.57	\$4.18	\$7.26	\$11.25	\$10.25	\$11.88
DPS	---	---	---	\$0.90	\$1.80	\$2.01	\$2.08	\$2.13	\$2.36	\$2.65	\$2.80	\$3.93
Shares¹	---	---	---	56.0	76.2	80.4	74.7	69.3	67.1	62.1	58.2	50.0

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. Currently, the remaining term lease on Triton's total portfolio is just under 70 months. With the majority of its leases (81% of CEU) under long-term contracts, the company's financials are essentially guaranteed to remain resilient despite an expected challenging trading environment over the short to medium-term. Triton has been growing its dividend annually since its merger in 2016. The latest dividend increase was by 7.7%. 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 26.9% of its common shares since the inception of the program in August 2018. We expect EPS of 3%

¹ Share count is in millions.

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going forward, led by Triton's multi-year leases and stock buybacks, offset by declining proceeds from asset sales relative to their record levels in fiscal 2022. We also expect the dividend to grow by 7% through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	7.9	7.5	7.4	9.6	7.6	5.2	6.7	7.5
Avg. Yld.	---	---	---	6.0%	5.0%	6.1%	6.2%	5.3%	4.2%	4.6%	4.1%	4.4%

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 have Triton's fair P/E at 7.5, but we still expect it to expand notably from its current multiple of 6.7. We believe the stock remains undervalued despite its rally over the past year. 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

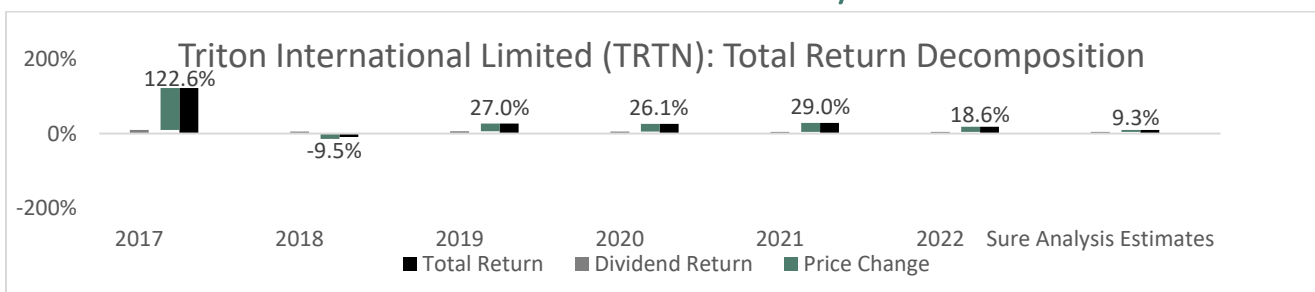
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	46%	46%	51%	33%	24%	27%	33%

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 the 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 \$8.07 billion position of long-term debt, interest payments are covered by nine 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 incredible over the past couple of years, and while lower utilization and proceeds from asset sales could be a headwind in the medium-term, we expect profitability to remain exceptional moving forward. We forecast annualized returns of around 9.3%, driven by EPS growth of 3%, a 4.1% yield, and the possibility for a 2.4% annual valuation tailwind. Still, following Triton's significant rally recently, we downgrade the stock to a hold.

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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