Siena Market Line
1st Week of May 2015

Trinity Industries

NYSE: TRN

Analyst: Tyler Rajeski
Sector: Industrials

BUY

Price Target: $52.01

Key Statistics as of 2/12/2014

Market Price:	$28.96
Industry:	Industrials
Market Cap:	$5.1B
52-Week Range:	$24.41 – 50.77
Beta:	1.64

Thesis Points:

- Will be Alleviate of Lawsuit Charges
- Decline in Oil Prices a tailwind rather than headwind
- Attractive Valuation Relative to Peers

Company Description:

Trinity Industries is classified as a diversified industrial company, however the majority of their revenue and income is derived from the production or leasing of railcars. Due to this, the majority of the analysis will be done on those two business segments. Trinity manufactures freight and tank railcars in North America used for transporting various liquids, gasses, and dry cargo. The company's leasing and services segment offers operating leases for trank and freight railcars. One advantage Trinity has from their diversity is they are able to leverage all of their different manufacturing facilities to meet demand for any of their segments. Despite this, Trinity has grown a very large backlog in all of their segments which confirms the fact that they have a leading position in both their railcar manufacturing and services markets.

Thesis

Trinity's recent decline in their stock price has been due to two factors – the lawsuit against them and the decline in oil prices. Trinity has consistently denied any liability in the lawsuit and appealed the verdict upon being found guilty. As part of the appeal Trinity's products had to undergo a number of safety tests which they easily passed. They are currently waiting on the results from the final test which will prove their innocence and alleviate them of any charges. Additionally, I feel that the decline in energy prices will actually be a tailwind rather than a headwind as it will delay the implementation of a pipeline which would take a significant portion of their business from them. My final point is that Trinity is a market leader and has a very attractive valuation relative to their peers.

Innocent in Lawsuit Charges

From the moment Trinity was charged with this lawsuit for having defective parts on their railcars, they have denied any liability. The lawsuit states that Trinity falsified claims about the safety of their rail guards and lied about their capabilities. Several people were injured in railcar crashes and the lawsuit claims that this was due to Trinity's product which simply is not the case. Trinity was convicted of the lawsuit late last year but they immediately appealed. Since then they have been required to undergo a series of safety tests which they have easily passed to this point. They are currently waiting on the results of the final test which should be available within the next couple months. Once they pass this final test they will be alleviated of all the charges. I am very confident Trinity will be able to pass this final test because it is supposedly the least intensive of all the other tests and the fact that their backlog has continued to grow at a tremendous rate meaning customer still want their products despite the lawsuit. This will be huge for trinity because it will not only bring back the value of their brand and attract back any customers who may have been scared off, but it will also free up $1B in cash which they will sue for shareholder returns and acquisitions. $1b is substantial when you are talking about a firm with a market cap of $5B. Theoretically Trinity would be able to repurchase 20% of their market cap at a significant discount to it's intrinsic value. In addition to this, they are generating $819 in cash from their operations so using cash for shareholder returns or acquisitions will not be an issue. With the firms' values being driven down by the decline in energy prices, Trinity feels that there are several attractive acquisition opportunities at a great value with large amounts of synergies. I feel that these companies are being discounted due to the decline in oil prices which means Trinity's value should rebound and any acquisitions they make will be at a significant discount and instantly add value when the industry starts to recover.

Decline in Oil Prices a Tailwind

The reason Trinity and many other rail companies have seen the decline in their stock prices is due to the recent decline in oil prices. Some analysts feel that the decline in Oil prices will lead to less Oil production which means less oil will need to be transported by the rail cars that Trinity manufacturers and leases. I am looking at this a completely different way. Oil companies who have already drilled the wells will continue to product oil because of all the fixed costs associated with setting up a site. Additionally, if these companies just stop producing they will generate no revenue and not be able to survive. Many of the Oil companies have locked in their prices per barrel through 2015 with hedges so as long as oil continues to rebound, as the majority of analysts believe it will, production should at a minimum stay flat. The continued growth in US oil reserves supports this theory of mine.

Another fear related to oil is analysts' fear of a pipeline taking away many of Trinity's customers. While this is a very valid concern I do not think we will see a pipeline in the U.S. anytime soon. Despite the political issues preventing a pipeline being made, the decline in oil prices should cause the individuals who want a pipeline to reconsider investing such as substantial amount of money at a time when oil prices are the lowest they have been in several years. This means that the decline in oil prices is actually helping Trinity. They now no longer have to worry about a pipeline eating up much of their business as pressure to create this pipeline should dwindle and even when it does start up you are looking at several years of debating and planning and then a couple of additional years for the actual production of the pipeline.

Attractive Valuation

A major strength of Trinity Industries is their ability to continue to grow their revenue while creating value. Since 2011 their revenue has more than doubled while at the same time increasing their EBITDA Margin from 19.6% to 22.5% and impressively more than doubling their Net Income margin from 4% to 9.5%.EPS growth has increased almost 6 fold over the same time period going from \$0.76/share to \$4.80/share. Overall this company continues to create value and exceed expectations when reporting earnings.

I do not see Trinity having any trouble continuing to exceed expectations as their backlog currently represents 43% of the industry at \$7.2 Billion just in the railcar manufacturing business. In leasing they also have a \$2.0B backlog. The backlog for these two business segments alone is more than 150% of their current annual revenue which shows their dominance as a market leader.

Below is a snapshot of Trinity's current Financial Positions as well as their valuation relative to their peers.

Relative to their Peers, Trinity is clearly the market leader. Not only through market share, but valuation as well. Trinity is only trading at 7.4x Earnings while the average of their peers is 31.62. Additionally, they are only trading at 2.76x EBITDA compared to a 9.01x peer average and 13.58x FCF compared to a 23.40x average. Based on these key valuation metrics you can see that they are significantly discounted compared to their peers and this is mainly due to the lawsuit.

Target Price

When calculating a target price I decided to use very conservative assumptions to make up for the fact that they are facing a lot of pressure in the market. Despite having very fast and steady growth I tapered off growth immediately and left margins flat even though they have increased every year over the last 4 years and are expected to continue to do so. Despite the very conservative growth and cost assumptions, I came up with a Target Price of \$52.01, using an ROIC model, which represents an 80% upside.

12 Months Ending	2011-12-31	2012-12-31	2013-12-31	2014-12-31	2014-12-31	2015-12-31	2016-12-31
Market Capitalization	2,455.9	2,926.5	4,454.3	4,361.2	5,546.2		
- Cash & Equivalents	351.1	573.0	578.2	962.9	962.9		
+ Preferred & Other	84.5	84.6	347.0	401.5	401.5		
+ Total Debt	2,972.2	3,055.0	2,992.9	3,553.0	3,553.0		
Enterprise Value	5,161.5	5,493.1	7,216.0	7,352.8	8,537.8		
Revenue, Adj	2,938.3	3,811.9	4,365.3	6,170.0	6,170.0	6,865.5	6,620.0
Growth %, YoY	36.3	29.7	14.5	41.3	41.3	11.3	-3.6
Gross Profit, Adj	580.8	771.0	1,043.0	1,550.2	1,550.2	1,749.0	1,694.7
Margin %	19.8	20.2	23.9	25.1	25.1	25.5	25.6
EBITDA, Adj	575.7	739.1	950.7	1,391.2	1,391.2	1,555.5	1,511.7
Margin %	19.6	19.4	21.8	22.5	22.5	22.7	22.8
Net Income, Adj	117.7	230.2	347.1	587.7	587.8	689.8	649.9
Margin %	4.0	6.0	8.0	9.5	9.5	10.0	9.8
EPS, Adj	0.76	1.49	2.27	3.75	4.80	4.31	4.01
Growth %, YoY	64.4	96.4	52.7	65.5	115.6	14.8	-7.0
Cash from Operations	110.9	527.4	662.2	819.2	819.2	933.9	903.7
Capital Expenditures	-335.6	-469.2	-731.0	-464.6	-581.6	-458.3	-575.0
Free Cash Flow	-224.7	58.2	-68.8	354.6	237.6	512.0	421.3

Zoom 100%

	Name	Tkr & Exch	Mkt Cap (USD)	P/E	P/EBITDA	P/FCF
	Average		32.05B	31.62	9.01	23.40
100)	TRINITY INDUSTRIES INC	TRN US	5.54B	7.41	2.76	13.58
101)	UNION PACIFIC CORP	UNP US	99.28B	19.76	9.48	33.21
102)	CANADIAN NATL RAILWAY...	CNI US	55.38B	--	--	--
103)	CANADIAN PACIFIC RAIL...	CP US	30.68B	--	--	--
104)	AMERICAN RAILCAR INDU...	ARII US	1.08B	10.73	5.28	--
105)	FREIGHTCAR AMERICA INC	RAIL US	365.29M	88.57	18.51	--

CENTER FOR GLOBAL FINANCIAL STUDIES

TRN