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BJORKLUND FUND

April 28th, 2017

Triton International: TRTN (Long)

John Garrity

Sector: Customer Services / Trading Companies & Distributers
Industry:
Current Price: $30.61
Target Price: $75.74

Company Description:

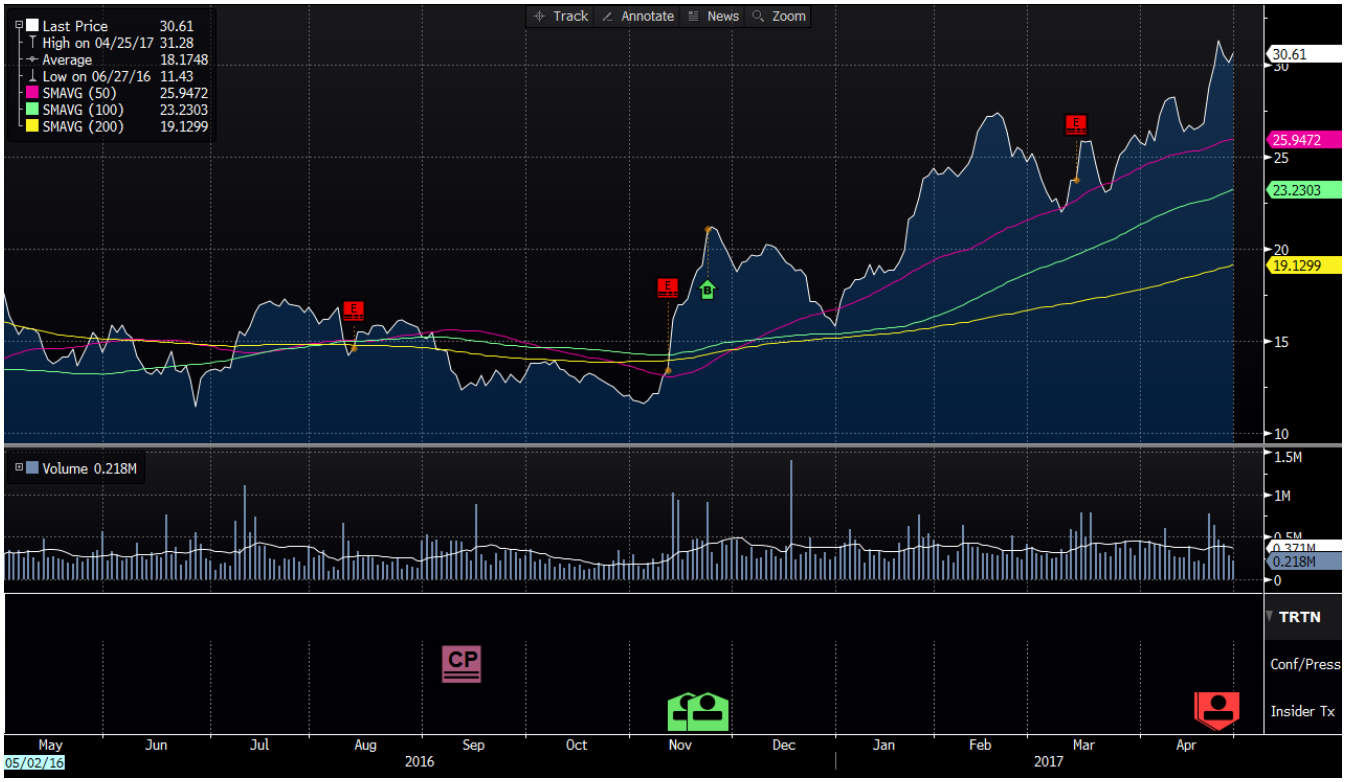
Triton International Limited is the world's largest lessor of intermodal containers and chassis. Intermodal containers are large, standardized steel boxes used to transport freight by ship, rail, or truck. Due to the handling of efficiencies worldwide, intermodal containers are the primary means by which many materials are shipped internationally. Chassis are used for transportation of containers. Triton's business is supported by a worldwide network of independent container depots and several active independent agent. Triton operates in two segments the intermodal transportation industry, equipment leasing and equipment trading. Triton owns, leases, and disposes containers and chassis from their lease fleet and manage containers owned by third parties in their equipment leasing business. In their equipment trading business, Triton purchases containers from shipping line customers and resell these containers to retailers and other users for storage or one-way shipment.

Key Statistics:

Market Price:	$30.61	ROE:	13.54%
Market Cap:	$2,280.4M	Credit Rating:	BB+
WACC:	5.75%	Debt/Assets:	72.9 %
ROIC:	2.03%	P/E:	24.75 x
EBITDA Margin:	74.6%	Volume:	.218 M
Ke (WACC):	9.84%	Effective Tax:	11.6%

Catalysts:

> Containerized trade volume (ST)
> Increase in average lease rates (ST)
> Utilization recovery (ST)
> Increased leasing demand (MT)
> International trade growth (MT)
> Container price increase (LT)

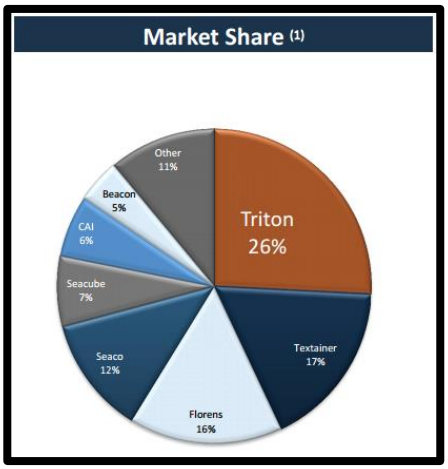


Thesis:

Triton International is the largest container leasing company in the world as of July 2016 through the merger of Triton Container and TAL International. According to Triton, key stakeholders including customers, lenders, and suppliers are reacting favorably to the merger and express strong interest in working with them being the market leader. The merger has increased Triton's competiveness from other leasing companies through new scale and cost advantages, superior supply capability, and access to large amounts of capital. They have a preferred supplier status with many customers and strong reputation for reliability making it very hard for a competitor to cut their market share. Triton operates globally, with facilities in South Korea, China, Japan, Australia, India, South Africa, and Brazil. They also have facilities in Seattle, San Francisco, Houston, NY, NJ, Miami, London, Hamburg, and Bermuda. Triton is able to offer the lowest unit cost, and provides unrivaled operating and marketing capabilities compared to their peers. The past few years were tough on the container leasing market, but due to a rebound in container prices and a better supply/demand balance for containers, Triton is poised to have a much improved 2017and beyond. The fourth quarter limited the pace of financial recovery due to lost revenues from a bankrupted customer; Hanjin, and increased repair expense to meet demand. Over 2017, Triton will experience lower pressure from lease re-pricing and sales of used containers to increase, making them a valuable growth stock.

Industry Outlook:

Intermodal containers are a secure and cost-effective method of transporting raw materials, component parts, and finished goods because they can be transported in a multitude of ways. The main competitors to Triton International are Textainer, Florens, Seaco, and Seacube. Triton has the number one leasing fleet of dry, refrigerated, and special containers worldwide and respectfully make up 61%, 30%, and 5% of their revenue.

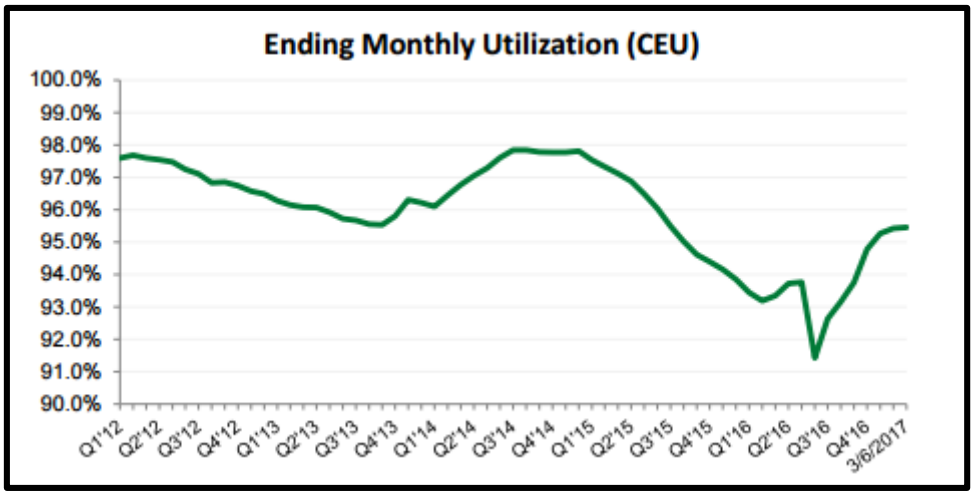


The current demand for dry containers are strong for the first time since 2014, thanks to the combination of trade growth and limited new container production. Triton's strong leasing portfolio will give them protection from any unfavorable market conditions, if any, because 76% of their containers are long-term/finance leases. Triton benefits from being a low-cost operator because they can stretch deals to sign the cheaper contracts for customers. In fact, they have the number one position with 4 of the top 5 carriers, and 7 of the top 10 carriers, and many of these customers have been loyal for the past decades. In August 2016, Hanjin Shipping Co., the 7th largest shipping company in the world filed for bankruptcy after the owners refused to invest incremental capital requested by lenders. They operated 98 ships and carried 3 percent of the world's vessel capacity. This caused significant cargo flow disruptions for their many of their creditors, including Triton. Most of Hanijn's vessels have been kept out of ports

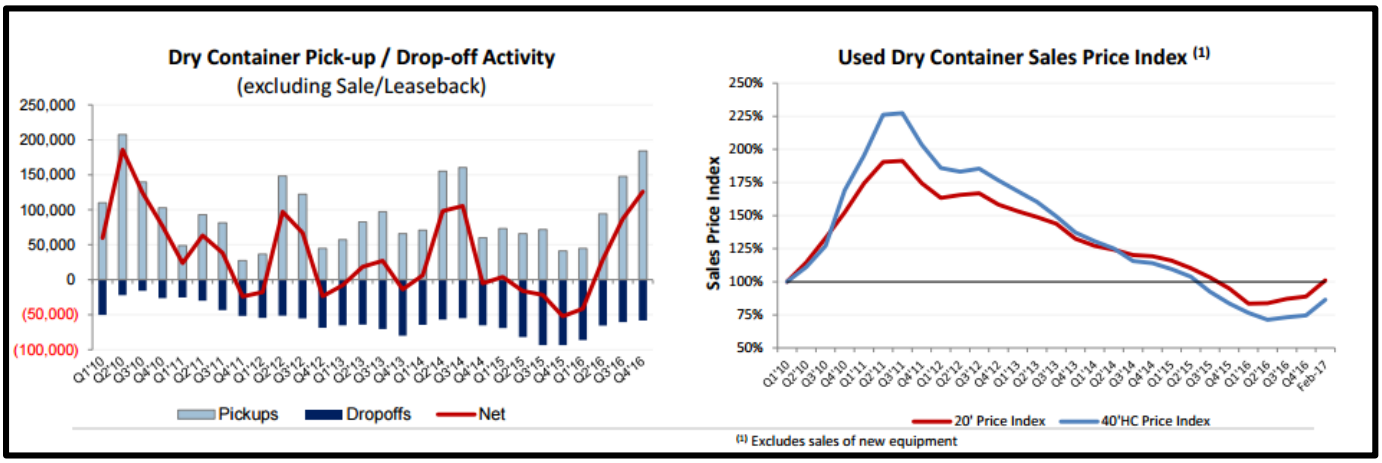
	1H 2016 Revenue[1]		1H 2016 EBIT[1][2]		EBIT Margin		Volume	
Company	USDm	Y/Y% Change	USDm	Diff Y/Y (USDm)	1H16	1H15	000 TEU	Y/Y % Change
Maersk Line	$10,035	(20%)	($107)	($1,373)	(1.1%)	5.7%	10,032	7%
Hapag-Lloyd	$4,186	(20%)	($44)	($343)	(1.1%)	5.7%	3,703	0%
MOL (containerships) [3]	$2,810	(15%)	($212)	($144)	(7.5%)	(2.1%)	1,990	(4%)
NYK (liner) [3]	$2,761	(9%)	($96)	($161)	(3.5%)	2.1%	n.a.	n.a.
OOCL (container transport and logistics)	$2,574	(15%)	($76)	($287)	(3.0%)	6.9%	2,890	6%
K Line (containerships) [3]	$2,296	(21%)	($170)	($224)	(7.4%)	1.9%	1,446	(3%)
Sample	**$24,662**	**(18%)**	**($705)**	**($2,532)**	**(2.9%)**	**6.1%**	**20,061**	**3%**

due to risk of seizure and inability to pay for unloading, causing much of Triton and others' fleet to await recovery. Any disruptions attributable to Hanjin should lead to a demand increase over the next several quarters due to the void that Hanjjin left in the market. Still, most of the competitors to Triton have been operating at a loss due to the decrease in freight rates. This can be partly attributed to the unusually low cost of containers when compared to the cost of steel, and the price will likely increase back to equilibrium.

Business Segments:



Triton International has two business segments in the intermodal transoprtation equipment industry; equipment leasing and equipment trading. The leasing segment makes up roughly 98 percent of Tritons revenue and offers leasing services to about 460 third party container depot facilities in 46 countries, and lease out dry freight containers (used for genral cargo, such as parts, consumer staples, electronics, and apparel), refrigerated containers (used for fresh and frozen food), specail containers (used for heavy and oversized cargo like building products and machinery), tank containers (used for liquid products and containers), and chassis (used for transportation of containers) under long-term, finance, and service leases. The merger of TAL and Triton have solidified them as the world leading seller of used containers. Dry containers make up 61 percent of Triton's revenue, as they are the least expensive and most widely used form of intermodal container. Many trends in the dry container leasing segment are improving, such as utilization, which shows how much of the fellet is being utilized. It is also important to note that new dry container production has been declining since 2015, which bodes well for those who are leasing out such containers. Important drivers of revenue in this segment are equipment fellt size, utilization rate, and average rental rates. For added revenue, Triton will sell the containers that are returned by the customer when they are returrned. In the equipment trading segment, Triton buys containers from large shipping line customers and resells them to users of containers for stortage and one-way shipments.

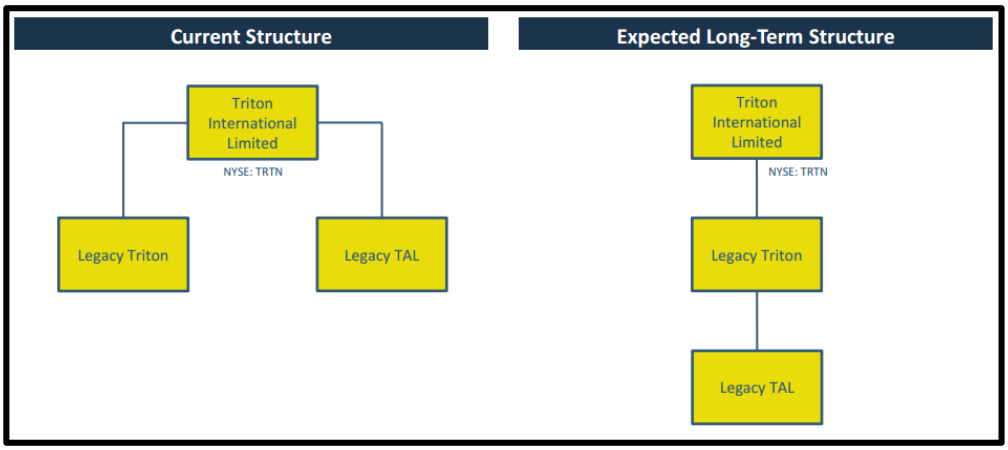


Merger of Triton Container Int'l LTD & TAL Int'l Group:

On July 12th, 2016 TCIL and TAL combined under a newly formed company called Triton International Limitedin an all-stock merger. For accounting purposes, TCIL aquired TAL.When the two companies combined, former Triton Container shareholders owned about 55 percent of outstanding equity and TAL shareholders owned about 45 percent of outstanding equity. Triton expects to be fully done with the transition by the second quarter of 2017, and reactions from key partners have been favorable, as their capabilities standout from their peers. Triton's largest customers have already experinced more favorable contracts since the merger, and suppliers have expressed a high level of interest in securing business, which will improve the balance of relationship. After the merger Triton has became a truly global company, as they are now able to offer the braodest market coverage with 340 locations in 85 countries. The purchase price allocation had been developed based on the estimates of fair value of the TAL assets aquired and liabilities assumed, with an expected total of $40 million saved annually in SG&A synergies.

Company Structure:

As of December 31, 2016, Triton has 3.265 billion dollars of total debt with fixed interest rates with a rated average of interest rate of 4.4 percent with a weighted average of 4.5 years remaining. Triton also has 3.150 billion dollars of total debt with rates based on LIBOR with a weighted average interest rate of 2.54 percent with a weighted average 2.9 years remaining. Triton has a debt to equity ratio of 3.83, and are subject to certain covenants under debt agreements respective to TCIL and TAL. TCIL facilities needs certain funded debt ratio, fixed charge coverage ratio, and a consolidated tangible net worth. TAL needs to maintain a minimum EBIT/Cash Interest Expense, a minimum tangible net worth, and a maximum Indebtedness/TNW. Over the past year, investment advisors have held the majority of Triton, but the percent of ownership has increased from 39 percent in August of 2016 to 57 percent in April of 2017. Private equities hold the next largest amount of Triton, but their ownership has decreased from 56 percent to 21 percent in the same time frame. Triton has gauged interest from hedge fund managers since the merger, increasing their ownership to 3.5 percent. Both TCIL and TAL are subsidiaries of Triton International, and both were roughly equal in the hierarchy, but the intent is to have a top-down structure where TAL is expected to take more of a back seat. For this to happen however, lenders to TAL need to alter the covenants to their loan agreements. Even with the amount of debt that Triton International has, the S&P confirmed that they have a stable rating of BB+.



Financials:

Earnings had been red for 2016, but Triton expects that performance will increase steadily. Earnings were hit by the Hanjin bankruptcy, falling utilization, and decreasing average rental rates. They have announced that the next few quarters may be confusing to follow but it is attributable to restructuring expenses that happened in the third and fourth quarters of 2016. These preliminary purchase accounting will negatively impact earnings up until the third quarter of 2017, where they start to get "increasingly" positive, but will have no impact on financing entities or on the cash flow. Several factors contributed to the slow financial growth in the fourth quarter of 2016 including a $3 million dollar check every month from Hanjin, an increase in repair expenses due to the need to sell containers off faster than expected, and that many of their leases picked up in Q4 had been booked at a lower price prior to the increase in lease rates. For the year ending 2016, Triton lost $13.5 million in net income, a decrease of $124.6 million dollars from the year prior. There were many factors that impacted Triton's earnings, and when GAAP rules are taken out of consideration for the merger and Hanjin, pre-tax income comes out to $113.4 million. Due to the merger much of the financials are confusing and distorted. Over the past year, the most interesting aspect of the balance sheet is that long term debt doubled to almost $6.5 billion dollars. However, the debt to equity ratio didn't change substantially, mainly due to the issuance of 37.2 million shares of stock. The main driver for outstanding performance for Triton will be accelerated over the next 4-8 quarters. Analysts expect Triton to experience 33.5 percent increase in revenue and almost a 200 percent increase in EBIT, mainly due to the merger.

($ in millions)	Year Ended December 31, 2016
Consolidated Results	
Pre-tax loss attributable to shareholders	(13.6)
Transaction costs	66.9
Unrealized (gain) on swaps	(4.4)
Write-off of deferred financing fees	0.1
Adjusted pre-tax income	**49.1**
Merger Impacts	
TAL pre-tax income from Jan 1 to July 12	18.1
Purchase accounting	16.5
Adjusted pre-tax income excluding merger impacts	**83.7**
Hanjin Impact	29.7
Adjusted pre-tax income with merger adjustments and excluding Hanjin (1)	**113.4**

Conclusion:

The past few years have been hard on Triton International and the container leasing industry, but there are many factors that can have them both trending upward for years to come. From the second quarter and beyond, it is expected that financial performance will improve, excluding the merger impacts. Although the size and pace of recovery past 2017 will depend on various macro-economic factors, unusual items on financial statements will be resolved and lease re-pricing. The merger was a hefty order, but it was able to create the largest and most trusted container leasing company in the world. Now that both TAL and TCIL merged their resources, they can reach a more global customer base. Because of the merger, the expected savings on synergies will be at least $40 million per year. Utilization and demand balance should improve as well, giving a significant lift to Triton's operations. One of the biggest factors that will affect the stock price will be the price of containers as there is not expected to be any significant production of new dry containers, which would generate more income for Triton. In summary, Triton has significant advantages over any of its competitors in terms of cost and customer preference, and is starting out strong in 2017. The merger with TAL will mud the waters for maybe a few more quarters, then significant improvement can be expected compared to the industry.

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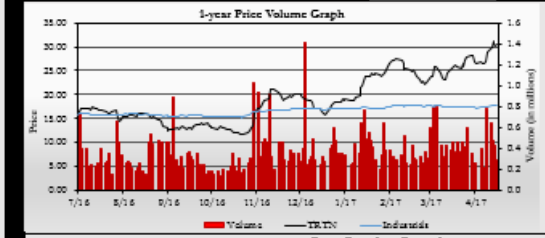
Triton International Limited (TRTN)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by	Current Price:	$30.61	Intrinsic Value	$64.62
4/30/2017	Divident Yield:	3.4%	Target Price	$75.74

Target 1 year Return: 150.83%
Probability of Price Increase: 100



Description

Triton International Limited engages in the acquisition, leasing, re-leasing, and sale of various intermodal containers and charter shipping lines, and freight forwarding companies and manufacturers.

General Information

Sector	Industrials
Industry	Trading Companies and Distributors
Last Guidance	November 3, 2015
Next earning date	May 11, 2017
Estimated Country Risk Premium	4.95%
Effective Tax rate	12%
Effective Operating Tax rate	-73%

Market Data

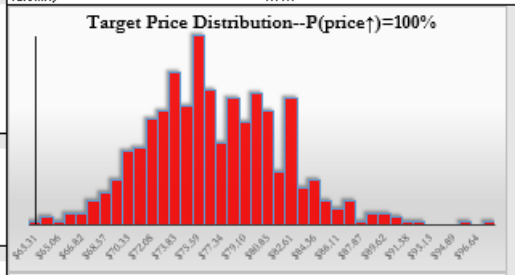
Market Capitalization	$2,280.38
Daily volume (mil)	0.22
Shares outstanding (mil)	74.50
Diluted shares outstanding (mil)	56.03
% shares held by institutions	74%
% shares held by investments Managers	26%
% shares held by hedge funds	3%
% shares held by insiders	1.57%
Short interest	1.48%
Days to cover short interest	2.88
52 week high	$31.97
52-week low	$11.50
Levered Beta	1.00
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	N/A	N/A
3/31/2016	N/A	N/A
6/30/2016	-31.33%	-30.38%
9/30/2016	-20.51%	-9.49%
12/31/2016	-1.69%	6.92%
Mean	-17.84%	-10.98%
Standard error	8.7%	10.8%

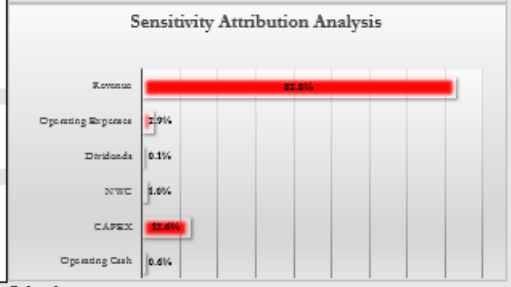
Peers

Textainer Group Holdings Limited
CAI International, Inc.



Management	Position	Total compensation grant	Total return to shareholders
Sandoy, Brian	Chairman of the Board and Ch	N/M	N/M
Vernon, Simon	President and Director	-31.51% per annum over 1y	N/M
Burns, John	Chief Financial Officer	N/M	N/M
O'callaghan, John	Global Head of Field Marketi	-37.83% per annum over 1y	N/M
Valentino, Kevin	Senior Vice President of Tri	N/M	N/M
Pearlin, Marc	Senior Vice President, Gener	N/M	N/M

Profitability	TRTM (LTM)	TRTM (4 years historical ave	Industry (LTM)
ROIC	19.3%	472.26%	22.99%
NOPAT Margin	111%	#DIV/0!	17.7%
Revenue/Invested Capital	0.17	#DIV/0!	1.30
ROE	56.9%	444.81%	29.73%
Adjusted net margin	91%	#DIV/0!	16.0%
Revenue/Adjusted Book Value	0.63	#DIV/0!	1.86
Invested Funds	**TRTM (LTM)**	**TRTM (4 years historical ave**	**Industry (LTM)**
Total Cash/Total Capital	1.4%	1.5%	5%
Estimated Operating Cash/Total Capital	0.6%	0.9%	N/A
Non-cash working Capital/Total Capital	5.4%	3.1%	32%
Invested Capital/Total Capital	95.8%	101.1%	95%
Capital Structure	**TRTM (LTM)**	**TRTM (4 years historical ave**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	5.42	0.00	0.34
Cost of Existing Debt	4.56%	9.73%	3.74%
Estimated Cost of new Borrowing	2.13%	2.63%	3.74%
CGFS Risk Rating	AA	A	CC
Unlevered Beta (LTM)	1.00	1.00	1.00
WACC	9.01%	9.01%	8.75%



Porter's 5 forces (scores are out of 100)

Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	14.0%	110.9%	2.14
12/31/2017	37.2%	71.1%	0.44
12/31/2018	5.0%	71.4%	2.23
12/31/2019	4.8%	71.4%	2.19
12/31/2020	4.5%	71.5%	2.19
12/31/2021	4.3%	71.5%	2.19
12/31/2022	4.1%	71.5%	2.20
12/31/2023	4.1%	71.5%	2.24
12/31/2024	4.1%	71.4%	2.28
12/31/2025	4.1%	71.4%	2.33
12/31/2026	4.1%	71.4%	2.40
Continuing Period	4.1%	71.4%	2.47

Period	Invested Capital	Net Claims	Price per share
Base Year	$0.00	$6,498.70	$53.68
12/31/2017	$37.69	-$633.00	$88.34
12/31/2018	$4,366.33	$1,649.42	$51.69
12/31/2019	$4,732.65	$4,115.30	$11.59
12/31/2020	$4,652.38	$6,790.89	-$32.26
12/31/2021	$8,193.85	$9,688.98	-$80.13
12/31/2022	$1,693.86	$12,822.78	-$132.32
12/31/2023	$1,802.20	$16,213.66	-$189.11
12/31/2024	$1,889.55	$19,871.86	-$250.75
12/31/2025	$1,968.36	$23,809.09	-$317.54
12/31/2026	$2,035.53	$28,040.03	-$389.76
Continuing Period			