

Rail Equipment

INDUSTRY UPDATE



Companies mentioned

	Symbol	Price	Rating
GATX	GATX	\$117.08	Positive
Greenbrier	GBX	\$50.46	Positive
Trinity Industries	TRN	\$32.09	Positive

REF 2022 - Railcar and Locomotive Conference Takeaways

Call to action

Railcar cyclical enthusiasm was consistent and the healthiest read we've gotten in our years attending this conference. Importantly, this is happening *without* real Class I rail volume growth (pg. 2 [here](#)), which would further tighten the market.

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HIGHLIGHTS

Our condensed takeaways from several days spent with railcar lessors, builders, other railcar buyers, consultants, and locomotive market participants follows.

- Optimism Abounds in Railcar. We've attended REF every year since 2012, and this was the healthiest sense of optimism we've felt during that time. Yes, the market was hotter when shale investment was peaking in 2014, but that period also shared a sense of dread on what the hangover would look like after dramatically overbuilding 40+ year assets to exploit what would prove to be a far shorter energy arbitrage opportunity.
- Railcar Enthusiasm Broad-Based, but Freight Better Than Tank. Cyclical enthusiasm was spread healthily across many car types, with no "hot" product driving the cycle. While freight (non-tank) car enthusiasm felt more consistent than tank cars, lessor enthusiasm for tank cars remained better than new car builders in that market. We see this tank car lessor-builder gap as a function of refurbishment opportunities for out-of-favor equipment.
- Scrap Steel Helping, but Supply/Demand the Real Driver. We asked several market participants whether cyclical enthusiasm was simply a function of inflationary pressure on new car prices from rising steel or a real response to lack of car availability. Our sense is tight car supply is the primary driver of rising lease rates and new car orders, with the spike in scrap values a secondary helper, particularly at the low end of the market (lessors can command higher prices on cars near end of life at low lease rates).
- Supply Chain Pain Seems Constrained to Europe So Far. We spoke to several railcar builders and component suppliers, and our sense is supply chain disruptions to railcar production are likely in Europe (where GBX should produce ~4-5K of their almost 20K global railcars this year). Domestically, we're not yet hearing of any critical component disruptions impacting the U.S. or Mexico, where most of TRN's and GBX's new cars are built.
- Locomotives - The Old Remains New Again. Diesel-powered rebuilds continue to drive the N.A. locomotive market, with our sense being no next-generation "clean" power technologies will take the lead in the near- or mid-term. WAB's battery hybrid FLXdrive system drew positive comments from independent observers (first deliveries expected in 2023), largely because it can phase into an existing distributed power train consist gradually (starting as one of three locomotives on the train, with the other two being proven diesel models). Compressed natural gas also seemed like a viable nearer-term "bridge" solution, but plenty of credible debate surrounded longer-term transitions to hydrogen, "clean" diesel fuels, or other technologies.

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Price target valuation and risks

GATX (GATX, Price: 117.08, Price Target: 119.00)

We derive our GATX target price of \$119 by applying an ~18x P/E to our 2023 mid-cycle estimate of \$6.60 (capitalizes a 10.2x EBITDA on our 2023 forecast).

Downside risk to our target price would be driven by sustained weakness in railcar lease rates.

Greenbrier (GBX, Price: 50.46, Price Target: 58.00)

We derive our GBX target price of \$58 by applying an ~13x P/E to our 2023 mid-cycle estimate of \$4.50 (capitalizes an ~7.2x EBITDA on our 2023 forecast). Of note, our multiple moves down one turn as our estimates rise a bit above our prior mid-cycle proxy on improving cyclical outlook for N.A. railcar deliveries and margins.

Downside risk to our target price could be driven by sustained weakness in railcar orders.

Trinity Industries (TRN, Price: 32.09, Price Target: 35.00)

We value TRN shares at \$35 by applying an ~15x P/E to our 2023 mid-cycle estimate of \$2.35, capitalizing an ~12.0x EBITDA multiple on our forecasted EV.

Downside risk to our TRN target price could be driven by sustained weakness in railcar orders and/or lease rates.

Analyst Certification

I, Bascome Majors, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Positive: We expect this stock to appreciate by at least 15% over the next 12 months.

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Negative: We expect this stock to depreciate by at least 15% over the next 12 months. .

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Defined Credit Terms

Gross debt + preferred TEV: (Gross Debt + Preferred) / Total Enterprise Value (expressed as a %).

Net debt/EBITDA: Net Debt (gross debt less cash on hand) / EBITDA = forward year EBITDA estimate.

Free cash flow: Forward EBITDA estimate less cash taxes less cash interest less total capex.

FCF yield: FCF Yield ((FCF/ Fully Diluted shares outstanding/current share price) (expressed as a %)).

YTM: Yield-to-maturity ("YTM") implied by any of its bonds outstanding that are due in 5 years ((or closest to)(expressed as a %)).

5-yr treasury yield: 5-year US Treasury yield (expressed as a %).

Volatility Definitions

Volume: The 20-day average option contract volume for the symbol.

Skew Rank: The current day's Skew values compared to the past year's worth of skew values and then rank the current day's value. Past year in the calculation is 252 previous trading days which includes the last trading day.

Implied Volatility: Implied Volatility is the at-the-forward volatility level implied by market option prices for 90 days. While implied volatility is specific to the time frame selected, it is always presented as an annualized standard deviation.

Realized Volatility: It is the Realized Volatility of a financial instrument over 90 days. Generally, this measure is calculated by determining the average deviation from the average price of a financial instrument in the given time period. This measure is frequently compared with implied volatility to determine if options prices are over- or undervalued. It is also known as historical volatility.

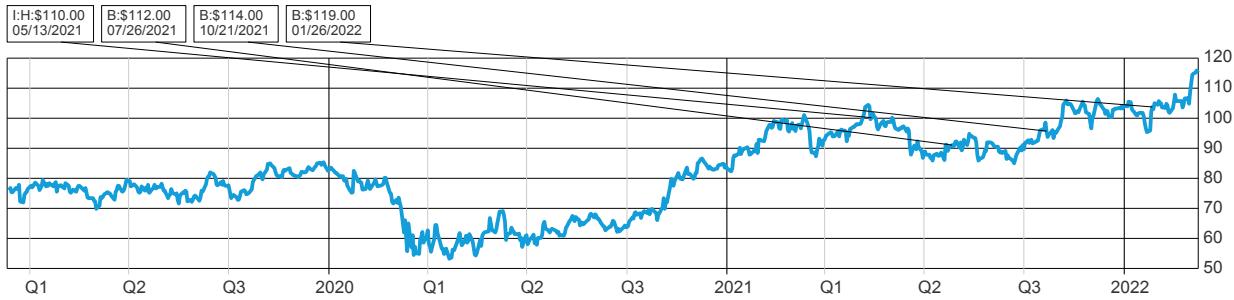
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Covered companies in each Category	Investment banking client in each category
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Neutral (Hold) 34.01% (67)	Neutral (Hold) 0.00% (0)
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Rating and Price Target History for: GATX (GATX) as of 03-09-2022



Rating and Price Target History for: Greenbrier (GBX) as of 03-09-2022



Rating and Price Target History for: Trinity Industries (TRN) as of 03-09-2022

