

# Mossberg's Investor Digest

## Best Idea Profile:

## Trinity Industries, Inc. (NYSE:TRN)

### DESCRIPTION:

Headquartered in Dallas, Texas; Trinity Industries, Inc. owns a variety of businesses which offer products and services to the industrial, energy, transportation, and construction sectors. The Company manufactures and sells railcars and railcar parts. Trinity also provides a variety of railcar components for the North American market from its plants in the United States and Mexico. The Company also has two repair and coating facilities. Additionally, Trinity leases railcars to its customers through an integrated business model, which includes a captive leasing business, Trinity Industries Leasing Company. Other Trinity business lines include manufacturing and selling inland barges, structural wind towers, concrete, aggregates, highway products, tank containers, and a variety of steel parts and components.

### KEY INVESTMENT CONSIDERATIONS:

**Diversification** – Though nearly 60% of the company's revenues are from rail products Trinity does benefit from diversification. Energy equipment, construction products and barge manufacturing, along with leasing, make up the other 40% of revenues. The business model provides for a strong performance in an up cycle with a downside cushion.

**Manufacturing Flexibility** – Trinity can easily retool its manufacturing operations to meet strong demand at peak times for different product lines. This flexibility leads to more efficient asset utilization.

**Trinity's Lease Fleet** – The Company has nearly 70,000 railcars that provide a strong strategic connection to its customers, as well as a long-term stream of profits and cash flows.

**New Energy By Rail Trends** – New energy production in the Alberta Tar Sands in Canada and the Bakken Shale range in North Dakota is creating a growing demand for railcar transportation due to shortage of pipelines to meet demand. Also, though rail is a more expensive mode of oil transportation than pipelines, expensive markets for the oil more than offsets the difference. There are 30 rail-loading facilities built in the Bakken, with another 40 planned. In addition to Bakken there are over a dozen other shale plays that could generate future demand for railcars.

**Keystone-XL** – The recent government decision to turn down the Keystone-XL pipeline from Canada will create additional Canadian demand for rail capacity in the US.

**Aging US Fleet** – Approximately 37% of the North American Railcar fleet is more than 25 years old

**Proven Operators** – Trinity has built a large fleet of young railcars with long-term leases. From Q1FY2000 through Q3FY2011 Trinity's railcar fleet grew from 8,700 to 69,045 railcars, a 19.7% (CAGR) growth rate.

**Strong Results** – The Company reported Q3FY2011 EPS results of \$0.40 on revenues of \$797 million vs. \$0.37 in EPS and \$540 million in revenues on a YOY basis. Q3FY2011 Rail Group revenues and Rail leasing and management revenues were \$321 million and \$153 million with operating profits of \$18 million and \$64 million, respectively.

### VALUATION:

Analysts EPS estimates for Trinity are \$2.37 for FY2012. This equates to a Px/Eps multiple of 13x when using the current stock price. That is a low multiple to pay for a company with proven results in a strong long-term growth trend for its largest operating segment.

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Investment Data (as of 1/26/12)

<b>Recent Price</b>	<b>\$31.30</b>
52-Week Range	\$19.10 - \$38.15
Fiscal Year End	Dec
Dividend	\$0.35
Yield	1.10%
Shares Outstanding	80M
Average Trading Volume (3 mos)	812k
Market Capitalization	\$2.5B
Cash	\$273MM
Long Term Debt	\$3.0B
Enterprise Value (EV)	\$5.3B
Book Value	\$22.88
TTM Revenue	\$2.8B
P/ Revenue	0.9x
TTM EPS	\$1.29
P/ EPS	24x
TTM EBITDA	\$563MM
EV/ EBITDA	9.4x