

The Greenbrier Companies

Targets low- to mid-teens F24 margins; Beat aided by delivery timing; PO \$40

Reiterate Rating: UNDERPERFORM | PO: 40.00 USD | Price: 44.34 USD

Manufacturing top-line and Leasing margins led beat

The Greenbrier Companies (GBX) posted F1Q24 EPS of \$0.96, above our \$0.65 target & Street's \$0.73. The beat was aided by better than expected Manufacturing revenues, which were up 5% year-year and \$69 million above our target, as it delivered 5,200 new railcar deliveries, exceeding our target of 4,900. It reaffirmed its F2024 target of \$3.4-\$3.7 billion in revenues (we were \$3.6 bil, now \$3.5 bil), and railcar deliveries of 22.5k-25.0k (we were 24.5k, now 24.0k). It also reiterated that 45% of its full-year orders are scheduled for 1H sales. Thus, we view the strong top-line beat as partly driven by delivery timing and lower our 2Q revenue target 16% to \$788 mil (from \$935 mil prior). Net revenue margins were 15% in F1Q, up 590 bps year-year and 100 bps better than our target as Leasing & Managed Services margins came in higher at 69.5% (we were 64%). The better-than-expected Leasing returns were aided by syndication activity and double-digit lease renewals. It highlighted its cost-saving moves with Manufacturing net revenue margins at 11% (in-line with our target), its highest in 9 quarters, as it achieved ~\$20 mil in savings from its closure of Gunderson Marine and its Texas foundry.

Sees low-to-mid-teens F24 margin; Watch cash generation

Greenbrier now targets low- to mid-teens margins in F24 (we were 12.8% now 13.9%), up from its low-teens view in F4Q23. Yet, it acknowledged cash generation may be constrained given elevated CapEx (it sees ~\$270 mil in F24 CapEx) and working capital challenges. It generated negative \$45 mil in F1Q operating cash and CapEx of \$68 mil. Revenues were \$809 mil, up 6% year-year and \$69 mil above our target. EBIT was \$65 mil, up from \$16 mil in F1Q23, \$13 mil above our target, for an operating margin of 8.0%, 590 bps above our target. GBX noted recurring revenues have increased 15% from a \$113 million base as of its April Investor Day and remains on track to at least double recurring revenues by and achieve mid-teens gross margins by F2026.

PO to \$40

We increase our PO on GBX's shares to \$40 (from \$34) on 10.5x our F2024e EPS (from 10.0x). We remain Underperform as we are cautious on the pace of new railcar orders given rising asset turns and increased equipment parking at carriers. Nevertheless, we are impressed with moves new CEO Tekorius has made to align costs with operations. We raise our F2024 and F2025 EPS 9% each, to \$3.75 and \$3.55, from \$3.45 and \$3.25.

Estimates (Aug) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.39	2.96	3.75	3.55	3.90
GAAP EPS	1.39	1.87	3.75	3.55	3.90
EPS Change (YoY)	26.4%	112.9%	26.7%	-5.3%	9.9%
Consensus EPS (Bloomberg)			3.69	3.68	NA
DPS	1.08	1.11	1.23	1.34	1.34
Valuation (Aug)					
P/E	31.9x	15.0x	11.8x	12.5x	11.4x
GAAP P/E	31.9x	23.7x	11.8x	12.5x	11.4x
Dividend Yield	2.4%	2.5%	2.8%	3.0%	3.0%
EV / EBITDA*	14.6x	8.6x	7.2x	6.6x	6.0x
Free Cash Flow Yield*	-36.5%	-20.0%	4.7%	-6.2%	-1.7%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 05 January 2024 02:56PM EST

05 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	34.00	40.00
2024E Rev (m)	3,587.1	3,531.8
2025E Rev (m)	3,729.6	3,601.2
2026E Rev (m)	3,879.1	3,904.7
2024E EPS	3.45	3.75
2025E EPS	3.25	3.55
2026E EPS	3.65	3.90

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Stock Data

Price	44.34 USD
Price Objective	40.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-7
52-Week Range	25.41 USD - 48.21 USD
Mkt Val (mn) / Shares Out (mn)	1,454 USD / 32.8
Free Float	96.5%
Average Daily Value (mn)	9.53 USD
BofA Ticker / Exchange	GBX / NYS
Bloomberg / Reuters	GBX US / GBX.N
ROE (2024E)	9.7%
Net Dbt to Eqty (Aug-2023A)	92.6%
ESGMeter TM	Medium

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iQprofileSM The Greenbrier Companies

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.9%	4.9%	6.0%	6.4%	7.6%
Return on Equity	3.6%	7.9%	9.7%	9.5%	11.3%
Operating Margin	2.7%	5.2%	7.4%	7.9%	8.3%
Free Cash Flow	(531)	(291)	68	(90)	(25)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-3.2x	0.7x	2.8x	1.8x	2.2x
Asset Replacement Ratio	3.7x	3.4x	2.5x	2.5x	2.4x
Tax Rate	29.9%	23.6%	25.8%	26.5%	26.6%
Net Debt-to-Equity Ratio	70.4%	92.6%	84.7%	102.7%	115.3%
Interest Cover	1.4x	2.3x	2.8x	3.0x	3.4x

Income Statement Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,978	3,944	3,532	3,601	3,905
% Change	70.4%	32.5%	-10.5%	2.0%	8.4%
Gross Profit	306	441	490	514	573
% Change	32.2%	44.2%	11.1%	4.9%	11.4%
EBITDA	183	312	373	403	448
% Change	30.3%	70.7%	19.4%	8.0%	11.4%
Net Interest & Other Income	(20)	(71)	(82)	(87)	(91)
Net Income (Adjusted)	47	100	122	115	124
% Change	26.6%	112.2%	23.0%	-6.3%	8.4%

Free Cash Flow Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	47	100	122	115	124
Depreciation & Amortization	102	106	110	117	123
Change in Working Capital	(303)	(172)	134	(54)	(24)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	4	37	(19)	28	47
Capital Expenditure	(381)	(362)	(278)	(295)	(295)
Free Cash Flow	-531	-291	68	-90	-25
% Change	-195.5%	45.2%	NM	NM	72.5%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(36)	(36)	(41)	(43)	(43)
Change in Debt	(118)	(115)	(53)	(20)	(20)

Balance Sheet Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	559	303	507	374	306
Trade Receivables	501	530	460	434	451
Other Current Assets	1,626	1,866	1,990	1,979	1,979
Property, Plant & Equipment	645	619	618	618	618
Other Non-Current Assets	520	661	627	627	627
Total Assets	3,852	3,978	4,202	4,031	3,981
Short-Term Debt	297	297	279	279	279
Other Current Liabilities	725	744	886	835	868
Long-Term Debt	1,269	1,312	1,431	1,431	1,431
Other Non-Current Liabilities	132	216	184	184	184
Total Liabilities	2,422	2,568	2,781	2,729	2,763
Total Equity	1,429	1,410	1,421	1,302	1,218
Total Equity & Liabilities	3,852	3,978	4,202	4,031	3,981

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Industrial Machinery

Company Description

The Greenbrier Companies, Inc. is a manufacturer of railroad freight cars in North America and Europe and a manufacturer of ocean-going marine barges in North America. The company also offers fleet leasing and repair services for railcars. It has some of the largest railcar leasing companies (TTX Corporation and General Electric) and largest Class I railroads (Burlington Northern and Union Pacific) as part of its customer base.

Investment Rationale

Greenbrier builds, repairs, refurbishes and leases railcars. The company is focused on improving operations in its core manufacturing division and expanding its international presence. While recovering demand is countering pressure from a weak North American railcar demand market, margins are anticipated to see further pressure on rising input costs. Valuation remains near the mid-point of its historical range, and with an uncertain margin outlook, we rate the shares Underperform.

Stock Data

Average Daily Volume 214,898

Quarterly Earnings Estimates

	2023	2024
Q1	0.05A	0.95A
Q2	0.99A	0.81E
Q3	1.01A	0.96E
Q4	0.91A	1.04E

Price objective basis & risk

The Greenbrier Companies (GBX)

We base our \$40 price objective on a 10.5x forward P/E multiple on our F24e EPS, near the bottom of its 9x-18x forward-year historical trading range as Manufacturing sales near peak given a weaker outlook on railcar deliveries. We expect manufacturing margins to improve profitability as it moves to cut costs, albeit constrained from rising input costs and muted railcar volumes.

Downside risks to our price objective are muted railcar demand which would pressure railcar manufacturing, lack of enforcement in tank car regulations, oversupply of railcars, labor disruption at plants, regulatory changes for manufacturing beyond its scope, decreasing carload volumes which would pressure growth in the company's wheels and parts, and leasing business, and decreased levels of profitability which would impair the company's ability to achieve its 25% ROIC target. Additionally, its moves to diversify internationally could create additional unanticipated pressures.

Upside risks to our PO are macroeconomic strength supporting higher demand for railcar orders and deliveries, as well as production efficiencies and management changes resulting in improved margins.

Analyst Certification

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US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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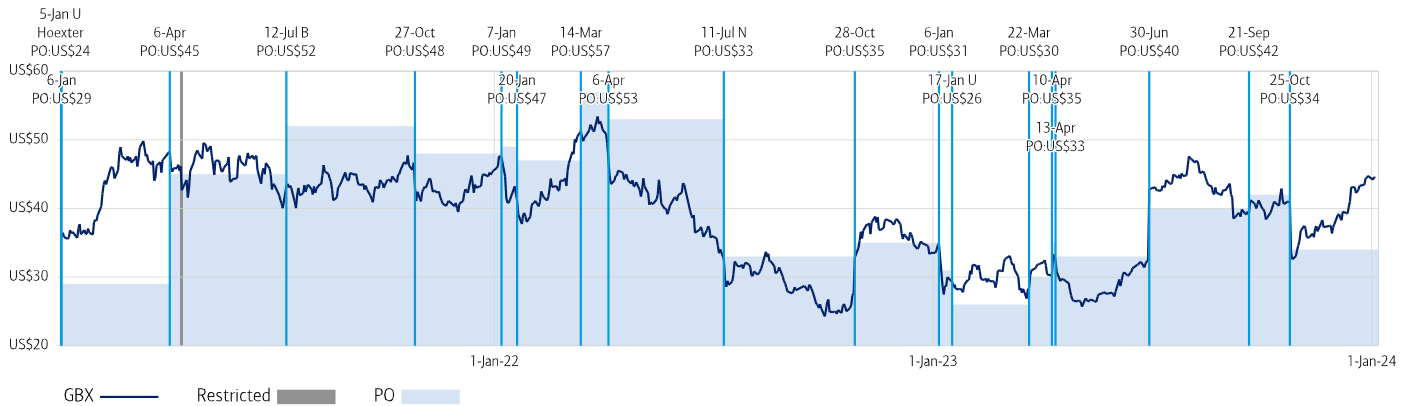
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Greenbrier Cos (GBX) Price Chart



GBX — Restricted PO
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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