

TFI International

LTL shows solid ops progress, but yields still negative, turn continues; PO to \$154

Reiterate Rating: NEUTRAL | PO: 154.00 USD | Price: 141.50 USD

Logistics/P&C offset LTL miss; sees LTL at 88% OR in '24

TFI International (TFII) posted 4Q23 adj EPS of \$1.71, flat year-year, slightly above our \$1.70/Street's \$1.67 estimates. Results were led by its Logistics (28% of revenues; \$0.12/share better) and Package & Courier (7% of revenues; 0.04/share better) segments, which offset Less-than-Truckload (LTL; 42% of revenues) results, which lagged targets (0.16/share below), while Truckload (24% of revenues) was in line. U.S. LTL posted adj operating income of \$71 million, down 19% year-year, \$19 million below our target, for an adj operating ratio of 91.0%, 60 bps worse year-year and 160 bps worse than our target. The LTL miss was volume-led, as tons/day were up 5.6% y-y, below our +12% target, while yields (revenue/cwt) excluding fuel were down 4% y-y, in line with our target. Yield growth was below the +9.8% 4Q average of peers (Saia +11.7%, XPO +10.3%, KNX +9.5%, ODFL +7.5%, TFII -4.1%), largely due to TFII's focus on adding heavier shipments (wt/shipment was up 10.6% year-year, versus peer average of -4.6%). It is focused on increasing wt/shipment as it remains 11% below the 1,335 pounds/shipment peer average. Contract renewals in 4Q were at 5%, below XPO's +9%, SAIA's +8.7%, and ArcBest's (ARCB) +5.6%. CEO Bédard noted that pricing take times, and TFII remains focused on improving service. 4Q damage claims were 0.5% versus Old Dominion's (ODFL) 0.1%, XPO's 0.3%, and SAIA's 0.6%. It targets a '24 U.S. LTL operating ratio of 88% (we are 88%), and '24 EPS (with the Daseke acquisition to be EPS neutral) to start with a \$7 (we are \$7.70).

LTL turnaround and Daseke integration top '24 focus

Revenues (excluding fuel surcharges) were \$1.7 billion, up 4% year-year, \$52 million below our target. Adj operating income was \$205 million, up 1% year-year, \$13 million above our target (\$0.04/share). It posted an adj operating ratio of 87.7%, a 30 bps deterioration year-year and 110 bps better than our target. In '24, TFII expects Logistics to outperform the market (acquired JHT in 3Q23/[JHT](#)), Truckload to benefit from its Daseke (DSKE) acquisition (closes 2Q24/[DSKE](#)), and U.S. LTL turnaround to show continued service gains.

Increase PO to US\$154/C\$207

We maintain our Neutral rating but increase our price objective (PO) to US\$154 (from US\$145) on TFII's shares (and C\$ to C\$207 from C\$196), based on 20x our 2024e EPS (from 17.5x). Our target moves further above its 11x-17x historical range, as its service gains are compounded by macro progress through '24 (after a weak 1Q) and breakeven year-1 Daseke (DSKE) post merger. We lower our '24e/'25e EPS estimates by 7%/10% to \$7.70/\$9.15, from \$8.25/\$10.15.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.04	6.34	7.70	9.15	11.15
GAAP EPS	9.06	5.81	7.12	8.55	10.54
EPS Change (YoY)	53.7%	-21.1%	21.5%	18.8%	21.9%
DPS	1.16	1.45	1.65	1.85	2.05
EPS (YTFII - C\$)	10.47	8.55	10.37	12.32	15.01
DPS (YTFII - C\$)	1.51	1.96	2.22	2.49	2.76
Valuation (Dec)					
P/E	17.6x	22.3x	18.4x	15.5x	12.7x
GAAP P/E	15.6x	24.4x	19.9x	16.5x	13.4x
Dividend Yield	0.8%	1.0%	1.2%	1.3%	1.4%
EV / EBITDA*	10.6x	12.8x	10.7x	9.4x	8.0x
Free Cash Flow Yield*	5.1%	5.3%	5.9%	7.1%	9.0%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 09 February 2024 03:04PM EST

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	145.00	154.00
2024E Rev (m)	9,094.2	8,928.7
2025E Rev (m)	10,285.9	10,069.4
2026E Rev (m)	NA	11,637.9
2024E EPS	8.25	7.70
2025E EPS	10.15	9.15
2026E EPS	NA	11.15

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Stock Data

Price (NYS / TOR)	141.50 USD / 190.90 CAD
Price Objective	154.00 USD / 207.00 CAD
Date Established	9-Feb-2024 / 9-Feb-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	100.96 USD - 142.95 USD
Market Value (mn)	12,290 USD
Free Float	88.2%
Average Daily Value	43.75 USD
Shares Outstanding (mn)	86.9 / 86.9
BofA Ticker / Exchange	TFII / NYS
BofA Ticker / Exchange	YTFII / TOR
Bloomberg / Reuters	TFII US / TFII.N
ROE (2024E)	29.2%
Net Dbt to Eqty (Dec-2023A)	72.6%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

cwt/wt: hundredweight/weight

iQprofileSM TFI International

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.1%	11.7%	13.0%	14.6%	15.8%
Return on Equity	31.3%	21.8%	29.2%	36.3%	34.8%
Operating Margin	11.3%	10.4%	10.6%	11.4%	11.5%
Free Cash Flow	623	652	728	877	1,101

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.8x	1.6x	1.5x	1.5x
Asset Replacement Ratio	1.8x	1.9x	1.3x	1.3x	1.1x
Tax Rate	24.9%	26.1%	23.6%	23.6%	23.6%
Net Debt-to-Equity Ratio	59.5%	72.6%	148.5%	114.0%	76.2%
Interest Cover	12.1x	8.7x	5.9x	5.4x	6.4x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,812	7,521	8,929	10,069	11,638
% Change	22.0%	-14.7%	18.7%	12.8%	15.6%
Gross Profit	1,857	1,623	1,943	2,209	2,571
% Change	29.8%	-12.6%	19.7%	13.7%	16.4%
EBITDA	1,481	1,224	1,465	1,678	1,956
% Change	67.0%	-17.4%	19.7%	14.5%	16.6%
Net Interest & Other Income	(20)	(81)	(155)	(210)	(208)
Net Income (Adjusted)	733	551	657	765	913
% Change	47.1%	-24.8%	19.2%	16.4%	19.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	731	518	607	714	863
Depreciation & Amortization	249	250	288	292	338
Change in Working Capital	(449)	(197)	(19)	21	27
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	443	443	143	141	163
Capital Expenditure	(351)	(362)	(290)	(290)	(290)
Free Cash Flow	623	652	728	877	1,101
% Change	6.2%	4.7%	11.6%	20.5%	25.5%
Share / Issue Repurchase	(577)	(335)	0	0	0
Cost of Dividends Paid	(97)	(121)	(141)	(155)	(168)
Change in Debt	(265)	553	1,100	(25)	(25)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	147	336	493	658	1,034
Trade Receivables	1,031	895	1,115	1,165	1,216
Other Current Assets	86	106	98	98	98
Property, Plant & Equipment	2,132	2,415	2,621	2,827	3,032
Other Non-Current Assets	2,110	2,532	2,532	2,532	2,532
Total Assets	5,506	6,284	6,860	7,280	7,913
Short-Term Debt	37	174	174	174	174
Other Current Liabilities	930	892	1,057	1,094	1,133
Long-Term Debt	1,576	2,043	3,143	3,118	3,093
Other Non-Current Liabilities	500	584	584	584	584
Total Liabilities	3,043	3,692	4,958	4,970	4,983
Total Equity	2,463	2,591	1,902	2,310	2,930
Total Equity & Liabilities	5,506	6,284	6,860	7,280	7,913

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Road Transport/Trucking

Company Description

TFI International is a North American trucking and logistics company, founded in 1957 with HQ in Montreal, Quebec. TFI manages a growing network of more than 160 wholly-owned operating subsidiaries, acquired over time. TFI operates through four business segments: 1) Less-Than-Truckload (LTL) (44% of 2022 Pro-forma Revenue) 2) Truckload (25% of 2022 Pro-forma Revenue), 3) Logistics & Last Mile (19% of 2022 Pro-forma Revenue), and 4) Package & Courier (P&C) (12% of 2022 Pro-forma Revenue).

Investment Rationale

We expect US\$ EPS to grow 50% over the next two years ('22-'23) after jumping 85% in 2021, driven by its diversification across trucking and exposure to the secular growth of e-Commerce. Following its UPS Freight acquisition within LTL, the stock is trading closer to LTL peers (teens). TFI has historically been subject to a lower multiple, with added pressure currently from a decelerating economic backdrop.

Stock Data

Average Daily Volume	309,172
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

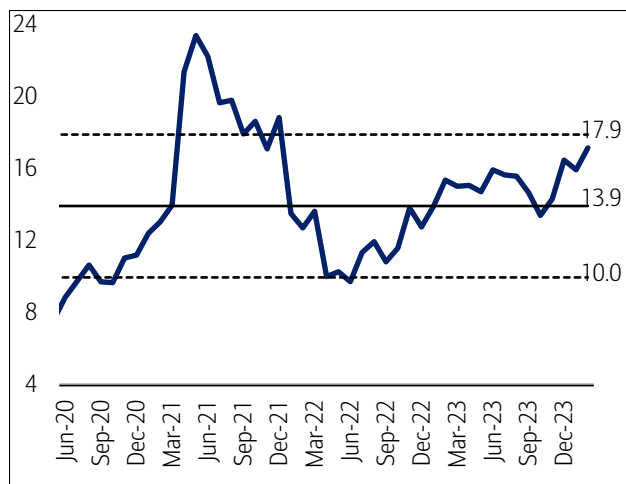
	2023	2024
Q1	1.47A	1.57E
Q2	1.59A	1.81E
Q3	1.57A	2.12E
Q4	1.71A	2.20E

Key Changes

(C\$)	Previous	Current
Price Obj.	196.00	207.00
2024E EPS	11.11	10.37
2025E EPS	13.67	12.32
2026E EPS	NA	15.01

Exhibit 1: TFI Forward P/E

Shares trading at 17.2x 2024e EPS, near the top of its 10-18x range



Source: BofA Global Research estimates and Bloomberg.

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US LTL operating ratio misses below target; yields in line

LTL revenues (before fuel surcharge) were \$696 million (includes US and Canada LTL), down 3% year-year, \$33 million below our target. Adj LTL operating Income was \$71 million, down 19% year-year, \$19 million below our target, for an operating ratio of 88.7%, a 90 bps deterioration year-year and 110 bps worse than our target.

US LTL revenues (ex-fuel) were \$481 mil, up 1% year-year, \$33 mil below our target. US LTL Tons/Day increased 6% y-y, below our +12% target. US LTL rev/cwt excluding fuel was down 4% year-year, in line with our target. TFI moved to increase its weight/shipment (weight/shipment +10% y-y) as it increased its Industrial shipper mix over Retail, yet still saw negative impacts from high customer churn. Adj US LTL operating ratio was 91.0%, a 60 bps deterioration y-y, 160 bps worse than our target, for adj operating Income of \$51 mil, up 11% y-y, \$4 mil below our target.

Canadian LTL revenues (excluding fuel) were \$138 mil, up 8% y-y, \$5 mil below our target. Canadian Operating Income was \$28 mil, down 9% y-y, \$3 mil below our target, for an operating ratio of 79.9%, a 460 bps deterioration year-year. Canadian LTL operations were negatively pressured by its recent Siemens acquisitions.

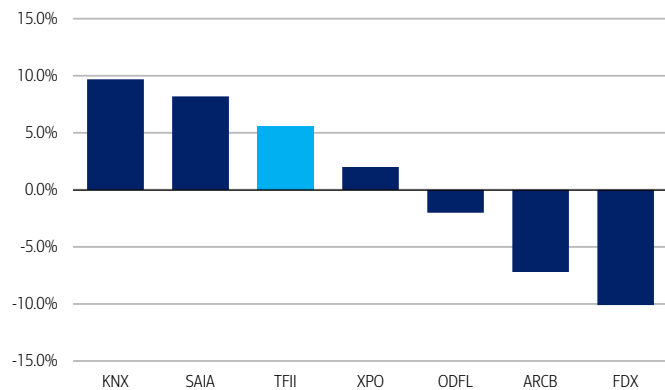
Truckload focus on DSKE potential; Logistics aided by JHT

Truckload Revenues (excluding fuel) were \$399 mil, down 1% y-y and \$15 mil below our target. Adj Truckload operating Income was \$51 mil, down 29% y-y and \$1 mil above our target, for an adj. operating ratio of 87.3%, a 910 bps deterioration y-y, yet 80 bps better than our target. The company should close its \$1 bil acquisition of DSKE in 2Q24 and believes that it can improve operations to a sub-90s operating ratio in 6-12 months (from ~93%).

Logistics revenues (excluding fuel) were \$472 mil, up 25% y-y and \$5 mil above our target. Its growth was primarily aided by the acquisition of JHT in August 2023 (excluding JHT, Logistics growth was flat). TFI reiterated its focus to maintain high Brokerage returns as it sees its 11.6% operating margin (280 bps better than our target) as best in class. Logistics operating Income was \$55 mil, up 60% y-y and \$14 mil above our target.

Exhibit 2: LTL Peer Comparison – 4Q23 Tons/Day

TFI US LTL Tons/Day +6%, above peers' flat average.

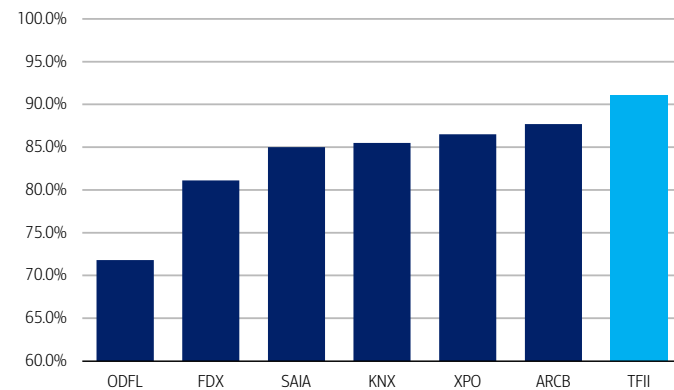


Source: BofA Global Research estimate and company reports.

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Exhibit 3: LTL Peer Comparison – 4Q23 Operating Ratio

TFI US LTL Operating Ratio of 91.0% is above peers' 82.9% average.

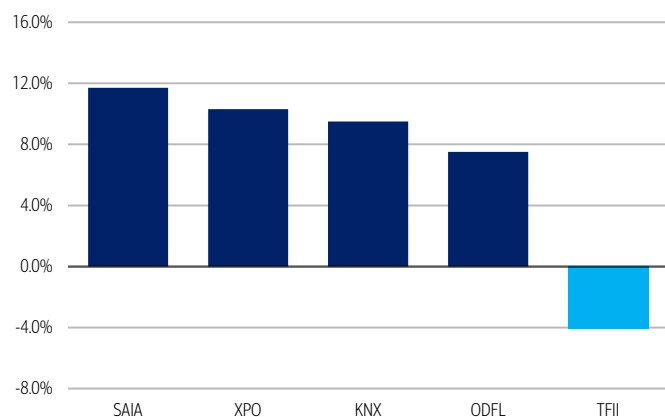


Source: BofA Global Research estimate and company reports.

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Exhibit 4: LTL Peer Comparison – 4Q23 Revenue/Hundredweight ex-fuel

TFI Revenue/CWT ex-fuel -4% y-y versus peers' average of +10%.

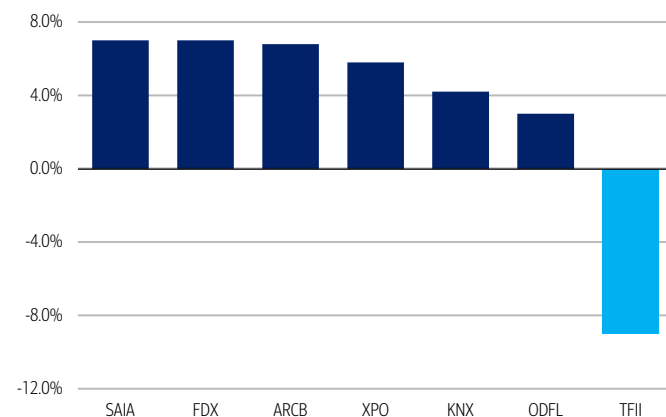


Source: BofA Global Research estimate and company reports.

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Exhibit 5: LTL Peer Comparison – 4Q23 Revenue/Hundredweight

TFI Revenue/CWT (with fuel) -9% y-y versus peers' average of +6%.

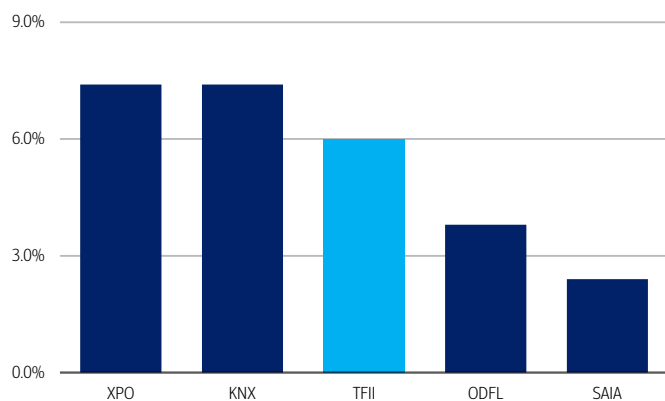


Source: BofA Global Research estimate and company reports.

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Exhibit 6: LTL Peer Comparison – 4Q23 Revenue/Shipments ex-fuel

TFI Revenue/Shipments +6%, above peers' average of +5%.

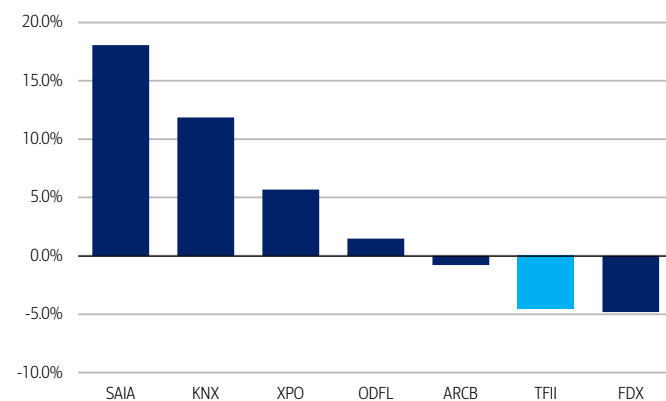


Source: BofA Global Research estimates and company reports.

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Exhibit 7: LTL Peer Comparison – 4Q23 Shipments/Day

TFI Shipments/Day -5%, versus peers' average of +5%.



Source: BofA Global Research estimates and company reports.

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Price objective basis & risk

TFI International (TFII / YTFII)

Our US\$154 price objective (C\$207) is based on 20x our 2024 US\$ EPS estimate, above the top of its 10-year one-standard deviation trading range of 11x-17x, as the company is executing on post-merger gains, transforming its North American LTL operations (post the acquisition of UPS Freight for \$800 million), countered with a decelerating economic backdrop. Our target multiple is in the middle of where LTL peers (10x-30x) and US Parcel peers (10x-16x) are trending toward.

Downside risks to our price objective are weaker-than-expected economic conditions resulting in a turnover in demand, an inability for the company to raise trucking rates to offset rising costs (driver pay, insurance, depreciation, and fuel), intensifying competition in brokerage and logistics and acquisition selection and integration risk.

Upside risks to our price objective are better-than-expected pricing, more accelerated M&A moves to drive inorganic growth, or higher-than-expected share repurchases.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

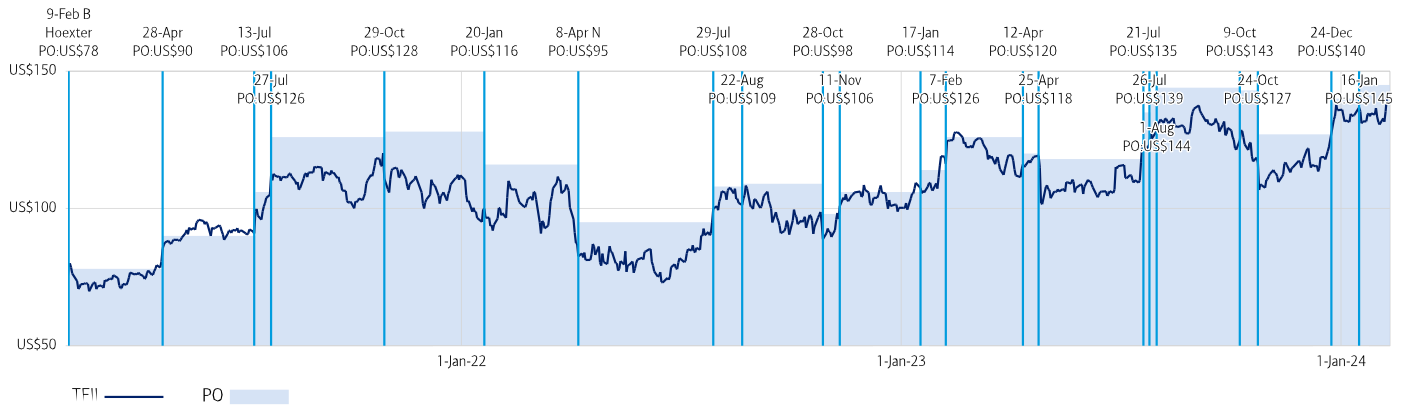
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

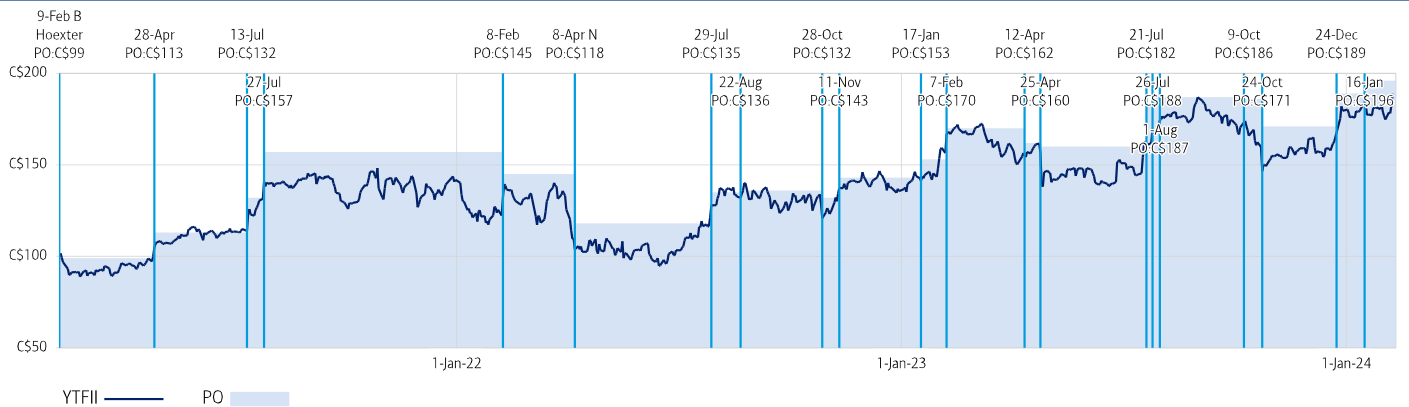
TFI International (TFII) Price Chart



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.

TFI International (YTFII) Price Chart



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: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

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.



FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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