S&P Global Ratings

Research

Presale:

TIF Funding III LLC (Series 2024-1)

March 21, 2024

PRIMARY CREDIT ANALYST

Ryan Kuhl
New York
+ 1 (240) 517 6246
ryan.kuhl
@spglobal.com

SECONDARY CONTACT

Rajesh Subramanian
Toronto
+ 1 (416) 507 3232
rajesh.subramanian
@spglobal.com

ANALYTICAL MANAGER

Deborah L Newman
New York
+ 1 (212) 438 4451
deborah.newman
@spglobal.com

Preliminary ratings

Class	Preliminary rating	Preliminary amount (mil. $)(i)
A	AA (sf)	250.10
B	A (sf)	27.10
C	BBB (sf)	22.80

Note: This presale report is based on information as of March 21, 2024. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i)There is the possibility to upsize to as much as $450 million.

Profile

Expected closing date	April 3, 2024.
Legal final maturity date	April 20, 2049.
Collateral	TIF Funding III LLC is a container securitization backed by a $346.72 million NBV portfolio containing 65,093 containers. TIF Funding III LLC has the right to net operating income from the portfolio and any net residual cash flows from the sale of containers.
Initial purchasers	RBC Capital Markets LLC, Mizuho Securities USA LLC, MUFG Securities Americas Inc., and PNC Capital Markets.
Issuer	TIF Funding III LLC.
Manager	Triton Container International Ltd. (BBB/Stable/-).
Seller	Triton International Finance LLC.
Indenture trustee	Wilmington Trust N.A. (A-/Stable/A-2).

NBV--Net book value.

Rationale

The preliminary ratings assigned to TIF Funding III LLC's (TIF III, or the issuer) $300 million fixed-rate asset-backed notes series 2024-1 reflect:

- Our view of the portfolio characteristics, including the asset quality and lease terms;

- The initial and future lessees' estimated credit quality;
- The payment structures and waterfall mechanism;
- Our analysis of the projected cash flows supporting the notes' timely interest payment and the ultimate principal payment on or before the legal final maturity date;
- Certain compliance tests and early amortization events included in the transaction documents, as described below;
- The presence of a reserve account that covers the series 2024-1 notes' nine months of interest; and
- The manager's experience in managing the container portfolio.

Key Changes From Other S&P Global-Rated Transactions

Some notable changes from the TIF Funding II LLC, series 2020-1 and 2021-1 transactions include the following:

- The addition of a class C note.
- The interest on the class B and C notes will be payable after the class A principal payment if an asset base deficiency has continued for at least 60 consecutive days. Any deferred and accrued interest on the class B and C notes will be payable by the legal final maturity.
- If an asset base deficiency has continued for at least 60 consecutive days, funds can be drawn from the reserve account for principal payments on the most senior outstanding note, up to the current and accrued interest due for the subordinate notes. The reserve will also not be replenished for the duration of such deficiency.

Environmental, Social, And Governance

Our rating analysis considers the transaction's potential exposure to environmental, social, and governance (ESG) credit factors. We generally consider these ESG credit factors in our credit quality, legal, and operational risk analysis. Although marine cargo container leasing companies are not directly exposed to environmental risks, regulations that pressure the container shipping lines could reduce their demand somewhat and increase the credit risk of their customers. At the same time, some efforts towards "slow-steaming," an environmental move to reduce fuel consumption and carbon emissions, could lead to increased demand for containers as trips take longer. Container leasing companies are less exposed to social risks than shipping lines, which could face disruption in their operations due to changing regulations, political events, or restrictions on movement of goods or people. However, such disruptions could affect the demand for leased containers and the credit risk of lessees. Governance credit factors are limited given that the transaction is structured to isolate the assets from the seller. Bankruptcy or other stress upon the manager could potentially disrupt the flow of payments to the transaction.

We have generally accounted for these risk by applying stresses to the re-lease rates and residual values upon sale of the containers. Our modelled recessionary periods and the default rates applied during such periods generally capture the impact on an lessees' credit quality.

Transaction Strengths

We consider the following to be transaction strengths:

- The container leasing market's resiliency and stability despite the macroeconomic disruption caused by the COVID-19 pandemic. Reduced levels of capital spending continue to support a relatively stable supply.
- The performance tests, such as the asset base compliance, concentration limitations, and early amortization event tests. Concentration limitations include special containers, other than refrigerated containers (reefers) (25.00% of the portfolio); and top three finance lessees (30.00%). If any of the concentration limits are breached, the excess concentration will be subtracted from the asset balance.
- Early amortization events, which include any earnings before interest and tax (EBIT) ratio of less than 1.1x, and the unpaid principal balance of outstanding notes exceeding the asset base. Some early amortization events may vary by series, including future series.
- Cash sweep trigger events, which include the weighted average equipment age exceeding 10 years, and the principal balance of the series 2024-1 notes not being repaid in full by October 2031.
- Approximately 85.48% of TIF III's portfolio represents long-term leases, which are shielded from rate reductions during a downturn.
- The interest reserve account, which equals nine months of note interest due.
- The relatively low age of the collateral pool.

Transaction Weaknesses

We consider the following to be transaction weaknesses:

- Global, regional, or local economic downturns could reduce the issuer's revenue because leased containers are deployed worldwide.
- The default of a customer with containers located in certain countries could make it economically or legally difficult to recover the container assets.
- Approximately 12% of the pool is off-lease or on a short-term lease, which are more sensitive to rate reductions during market downturns.
- Any direct finance leases (DFLs; 2.38% expected at closing but up to 30.00% allowed for the top three finance lessees) in the transaction may be "recharacterized" as secured debt if the lessee files for bankruptcy. Because lessors and secured lenders have different rights and remedies as creditors in a bankruptcy, a debtor may seek to recharacterize a lease to take advantage of these distinctions.
- The targeted amortization schedule is 13.33 years, which is longer than the typical 10-year schedule we see in container ABS transactions.
- The current pool contains 16.20% special containers, that may be vulnerable to re-lease and residual risk, due to the specialized nature of these assets.
- Funds can be drawn from the reserve account for principal payments on the most senior outstanding note, up to the current and accrued interest due for the subordinate notes.

However, the account will only be replenished up to the current interest due on the notes (provided a 60-day asset base deficiency does not exist). This could result in the account being drawn upon faster than it will be replenished.

- The transaction documents allow for sales of container assets. As long as the transaction is in compliance with certain tests, instead of paying down the notes, the proceeds from such sales will be paid out as income to the transaction's residual class or to certain other payments that are also subordinate to the rated notes.

Mitigants To Transaction Weaknesses

We believe the following factors partly mitigate this transaction's weaknesses:

- We incorporate the stress scenarios that we apply to the cash flow modelling for fleet utilization, lease rates, and operating expenses through two sector downturns--the first is four years long, and the other is three years long--over the fleet's life.
- The scenario default rate we apply to cash flow modelling reflects the overall concentration and credit quality of the pool (see Cash Flow Results section).
- Short-term and off-hire leases are subject to a utilization stress in our cashflow stress scenarios. We performed an additional stress scenario assuming extended downtime for off-hire containers (see Cash Flow Results section).
- Based on our findings that indicate no evidence of attempts by shipping lines to recharacterize DFLs as secured debt, we use recovery delay assumptions consistent with other business loan-backed securitizations. In those cases, for 'AA' category ratings, we assume a 30-month delay.
- Despite the long amortization schedule, the transaction will enter a pro-rata turbo payment after the cash sweep trigger date (October 2031), which could accelerate the repayment of the notes.
- Under our criteria, special containers are subject to specific utilization stress, as well as a lower residual value compared to dry containers.
- The class B and C notes are deferrable until they become the most senior class. The results of our cashflow runs indicate that all classes will be paid off according to the terms of the transaction documents.
- While the transaction documents allow for sales of container assets, if additional container sales were sufficient to reduce the asset base to the minimum required level, our cash flow analysis shows that the notes may experience losses under the stress scenarios corresponding to the preliminary ratings assigned. The manager's performance history for this securitization and other securitizations does not include excessive asset sales, nor is there a pattern of keeping overcollateralization (O/C) levels at or close to the minimum required level. We expect that, under base-case conditions and absent any additional issuance from the master trust, the transaction leverage would gradually decline over time.

Industry Characteristics--Sector Outlook

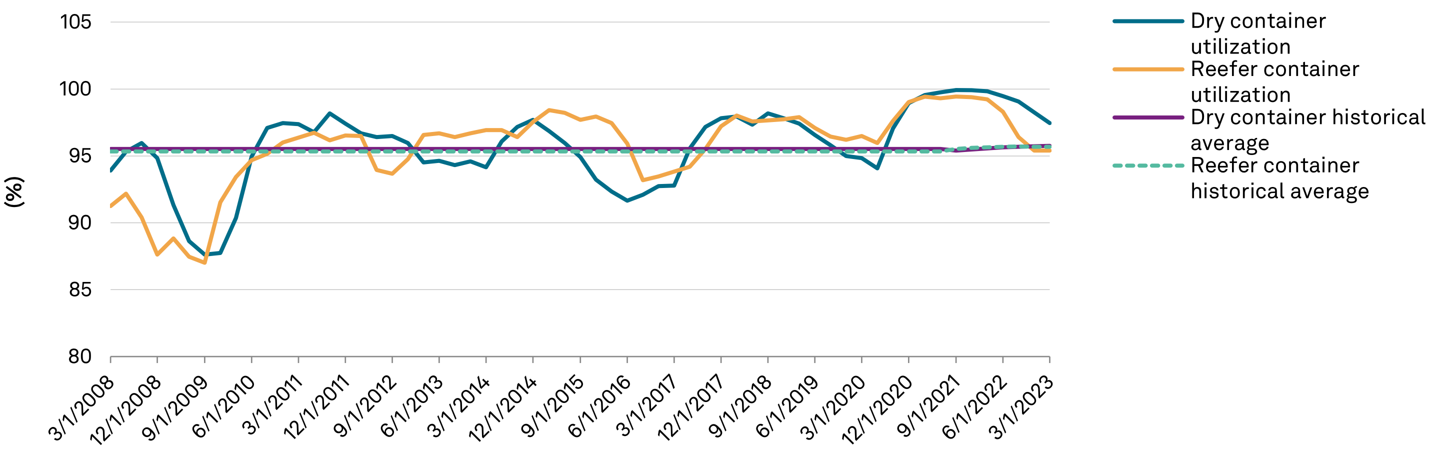
Demand for marine cargo container is primarily based on the level of world trade, which correlates with economic cycles. We believe other factors affecting demand include the needs of shipping lines (marine cargo containers' major customers), the available supply and cost of equipment, and the availability to purchase or lease the needed equipment. As of Dec. 31, 2022, the global container fleet measured about 54 million 20-foot equivalent units (TEUs). Approximately half of the fleet is owned by shipping lines and other operators. The other half is owned or managed by container leasing companies.

The industry's utilization and revenues reached historic highs in 2021 and the first half of 2022, as the world economy emerged from lockdown and pent-up consumer demand for goods drove shipping rates and container prices higher. The increased prevalence of e-commerce as a result of the lockdowns, coupled with a container shortage (a result of reduction in production from the manufacturers in China and congestion at ports globally), tied up marine cargo containers, which resulted in an inability to unload and return them to be refilled with more goods. Consequently, utilization for all marine cargo container lessors increased to record levels, in some cases close to 100%, during this time. Since July 2022, because the market has normalized, utilization has decreased slightly, but remains elevated in the high-90% area. Marine cargo container dislocations benefit marine cargo container lessors because incremental containers are needed to replace those still in transit or sitting on the ground at ports. Through the first half of 2022, shipping lines held on to containers longer than usual in order to keep excess capacity to serve customers. As the global economy has cooled, with worries of a moderate recession mounting, containers are now being returned at a higher level. However, they still present a profitable trade for lessors who can sell these used boxes in the market, often at a profit above their book value.

Even with a global recession looming at the start of 2023, the container leasing industry was well-protected as a result of stronger and more creditworthy shipping lines who experienced windfall profits over the past two years. and longer-term and higher lease-rate contracts entered into during the strong rebound from the COVID-19 pandemic. Additionally, uncertainties with the conflicts in the Red Seas may lead to additional demand for shipping containers. Demand for marine cargo reefers, which transport perishables, has been steadier than that for dry marine cargo containers, which tends to be more cyclical as seen from recent trends. We expect continued moderate growth in reefers as consumers continue to enjoy fresh produce, seafood, etc. that they can source globally year-round rather than just seasonally from local harvests.

Chart 1

Aggregate dry and reefer fleet utilization, weighted by TEUs, for ABS deals rated by S&P Global Ratings



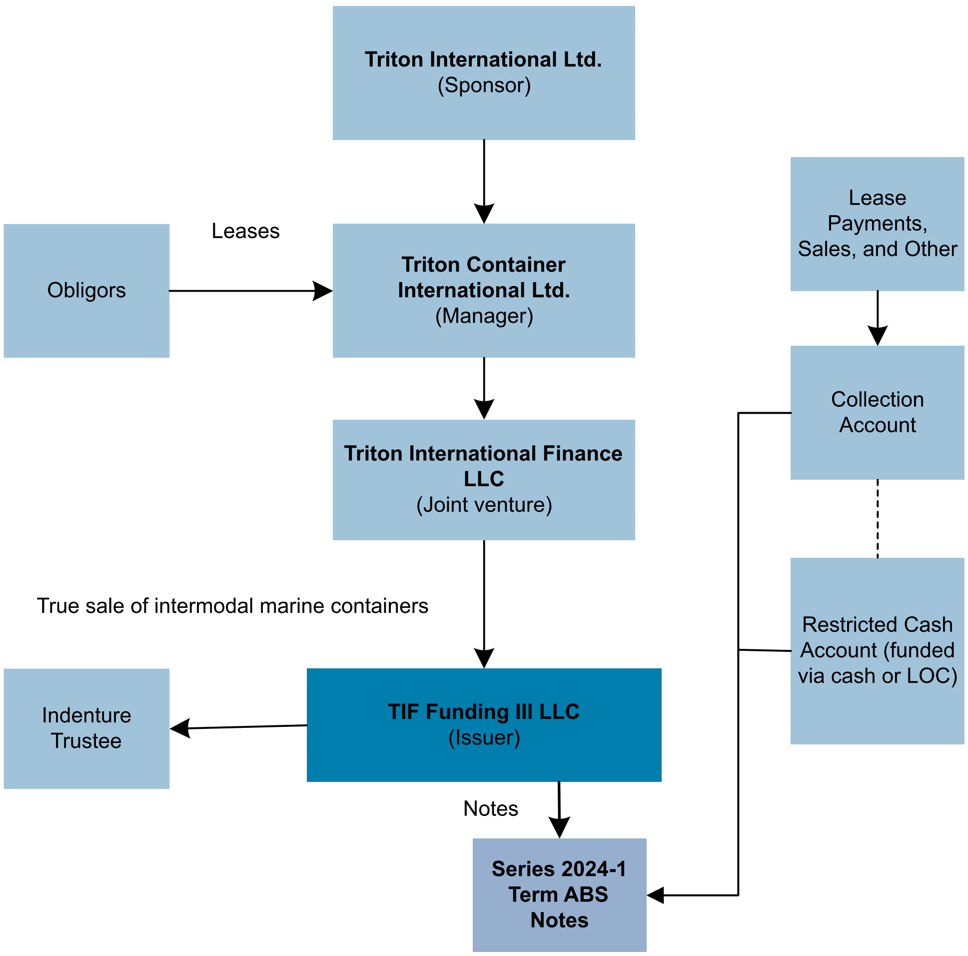
TEU--20-ft. equivalent units. ABS--Asset-backed securities.

Transaction Structure

The issuer is intended to be a bankruptcy-remote limited liability corporation organized under Delaware law. The issuer's primary assets are the containers acquired from Triton International Finance LLC (TIF) and managed by Triton Container International Ltd. (TCIL).

Chart 2

Transaction Diagram



Series-specific collateral

Each series within the trust, including 2024-1, will be secured by a separate series-specific pool of containers and related rights thereon.

Under the transaction terms, the issuer will grant to the indenture trustee, solely for the series 2024-1 noteholders' benefit, a security interest in the series-specific collateral.

Exercising series-specific collateral remedies will generally be made by the series 2024-1 controlling party. In certain instances, and subject to the payment priority, funds on deposit in the series 2024-1 account may be deposited into the shared funds account and then paid to the noteholders of other series that have a payment deficiency regarding certain specified interest or principal payments.

Likewise, any additional series issued by the issuer will be secured by a separate series-specific container pool and the series 2024-1 noteholders would not benefit from a security interest in such collateral, though they may benefit from funds deposited into the shared funds account.

At the time of this issuance, only the 2024-1 notes are outstanding for the issuer.

Related Corporate Entities

TCIL, the manager, is a wholly owned subsidiary of Triton International Ltd. (TIL). In 2016, TCIL, which was already one of the largest marine cargo container lessors, merged with TAL International Group Inc., forming TIL to become the largest, by far, in this space. As of Sept. 28, 2023, TIL operates as a subsidiary of Brookfield Infrastructure Corp. According to industry statistics, as of December 2022, TIL is one of the largest marine cargo container lessors based on cost equivalent units, with a 26.00% market share. The other largest container lessors are Textainer Equipment Management Ltd. (15.00%), Florens Container Services (13.00%), and Seaco (12.00%). As of Dec 31, 2023, utilization for TIL containers was 96.50%. TIL's fleet includes dry containers (the most widely used type of equipment), reefers, special containers, tanks, and chassis.

Portfolio Characteristics

Tables 1 through 6 detail the characteristics of the underlying collateral pool.

Table 1

Comparison among container transactions

	TIF Funding III LLC (2024-1)	CLI Funding VIII LLC (Series 2023-1)	CLI Funding VIII LLC (Series 2022-1)	CLI Funding VIII LLC (Series 2021-1)	Global Container Assets 2016 Ltd. (Series 2022-1)	MC Ltd. 2021-1	Beacon Container Finance II LLC (Series 2021-1)	Global SC Finance VII SRL (Series 2021-2)	Textainer Marine Containers VII (Series 2021-3)	Textainer Marine Containers VII (Series 2021-2)
Total NBV ($)	346,721,768	1,552,619,982	1,417,103,491	798,131,797	357,873,794	275,358,688	370,571,070	703,368,275	731,457,719	382,482,064
Total units	65,093	294,300	277,066	159,128	174,157	116,397	116,518	175,603	254,134	104,087
Weighted-average age (year, by NBV)(ii)	2.65	4.09	3.30	2.97	9	7.74	2.83	3.82	2.98	2.80
Weighted-average per diem rate (by unit) ($)(ii)	1.83	1.99	1.83	1.75	1	0.68	1.04	1.47	0.91	1.21
Lease type (% of NBV)										
Long-term	85.48	62.16	55.89 (iv)	59.12	62	91.55	78.77	68.63	69.94	78.93
Master/Service leases	5.28	33.60	35.24 (iv)	31.06	24	0.55	21.20	24.89	29.32	17.44
Finance leases	2.38	3.46	5.32 (iv)	9.82	13	7.71	0.03	4.38	0.63	2.00
Off-hire/Depot units	6.85	0.78	0.14 (iv)	0.00	0	0.19	--	1.60	0.10	1.63
Container type (% of NBV)										
Dry	42.39	29.21	29.61	27.69	90	99.80	77.80	54.59	94.29	65.67
Reefer	33.25	67.32	67.00	69.92	6	0.20	22.20	33.39	5.56	24.30

Table 1

Comparison among container transactions (cont.)

Special (including gensets)	16.16	3.47	3.40	2.39	0	--	--	6.87	0.14	1.45
Tank	8.19	--	--	--	3	--	--	5.15	--	8.58
Senior advance rate (%)	69	73	81	81.0	55	58.0	80.0	80.0	74.0	79.0
Utilization B/E (%)	--	--	--	19 (class A)/33(class B)	--	17 (class A)/4 (class B)	6	9 (class A)/19(class B)	7(class A)/15(class B)	15 (class A)/25(class B)
Re-lease rate B/E (%) (i)	--	--	--	14 (class A)/19 (class B)	--	7 (class A)/2 (class B)	6	10 (class A)/12 (class B)	6(class A)/12(class B)	8 (class A)/13(class B)
Revenue B/E	3 (class A)/4 (class B)/4 (class C)	0 (class A)/4 (class B)	6 (class A)/ 11 (class B)	5 (class A)/8 (class B)	5 (class A)/7 (class B)	4 (class A)/1 (class B)	4	3 (class A)/5 (class B)	4 (class A)/7 (class B)	5 (class A)/8 (class B)
S&P Global Rating's credit rating	Preliminary AA (sf)/Preliminary A (sf) Preliminary BBB (sf)(class A/class B/class C)	A- (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)	A (sf)/BBB+ (sf) (class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf)(class A/class B)
Closing date	April 3, 2024	June 20, 2023	Jan. 27, 2022	Feb. 25, 2021	Feb. 17, 2022	Dec. 1, 2021	Nov. 3, 2021	Aug. 17, 2021	Aug. 11, 2021	April 20, 2021

	Global SC Finance VII SRL (Series 2021-1)	Triton Container Finance VIII LLC (Series 2021-1)	Textainer Marine Containers VII (Series 2021-1)	CLI Funding VI LLC (Series 2020-3)	TIF Funding II LLC (Series 2021-1)	Global SC Finance VII SRL (Series 2020-2)	Textainer Marine Containers VII (Series 2020-3)	Textainer Marine Containers VII (Series 2020-2)	TAL Advantage VII LLC (Series 2020-1)
Total NBV ($)	700,399,977	870,230,071	652,746,662	1,918,997,689	595,998,482	701,390,934	261,211,817	766,659,716	782,225,490
Total units	176,836	310,589	180,632	440,433	160,922	230,899	71,157	253,260	237,134
Weighted-average age (year, by NBV)	4.80	4.11	2.16	4.04	0.70	5.64	3.79	4.01	6.33
Weighted-average per diem rate (by unit) ($)	1.51	1.01	1.15	1.81	1.11	1.28	1.28	0.98	1.30
Lease type (% of NBV)									
Long-term	61.95	96.64	68.95	62.65	98.09	89.79(ii)	86.15	76.73	97.09
Direct finance leases	5.12	0.00	25.53	31.44	0.25	3.75(ii)	8.63	18.91	0.00
Master	32.26	2.89	5.18	5.09	1.62	3.25	2.34	1.71	0.35
Off-hire	0.66	0.47	0.35	0.81	0.04	3.13(iii)	2.88	2.65	2.56
Container type (% of NBV)									
Dry	45.17	84.20	59.22	31.93	82.11	41.67	60.63	73.46	59.71
Reefer	41.89	14.75	40.29	63.11	14.61	40.93	38.29	22.59	22.13
Tank	4.68	1.05	0.49	--	2.68	12.70	1.08	3.95	10.61

Table 1

Comparison among container transactions (cont.)

Special (including gensets)	8.26	--	--	4.97	0.60	4.70	--	--	7.55
Senior advance rate (%)	80.0	79.0	79.0	81.0	79.0	80.0	80.0	68.0	75.0
Utilization B/E (%)	29 (class A)/33(class B)	3 (class A)/15 (class B)	10 (class A)/17 (class B)	15 (class A)/30 (class B)	4 (class A)/15 (class B)	9 (class A)/15 (class B)	5 (class A)], 19% (class B)	5 (class A)/14 (class B)	5 (class A)/17 (class B)
Re-lease rate B/E (%) (i)	20 (class A)/23 (class B)	3 (class A)/11 (class B)	9 (class A)/17 (class B)	10 (class A)/17 (class B)	4 (class A)/14 (class B)	6 (class A)/9 (class B)	4 (class A)], 13% (class B)	3 (class A)/11 (class B)	3 (class A)/10 (class B)
Revenue B/E	9 (class A)/10 (class B)	2 (class A)/8 (class B)	5 (class A)/9 (class B)	6 (class A)/11 (class B)	3 (class A)/9 (class B)	5 (class A)/7(class B)	3 (class A)/8 (class B)	3 (class A)/8 (class B)	3 (class A)/8 (class B)
S&P Global Rating's credit rating	A (sf)/ BBB+ (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf)(class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB+ (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)	A (sf)/BBB (sf) (class A/class B)
Closing date	March 17, 2021	March 17, 2021	Feb. 10, 2021	Oct. 19, 2020	Feb. 3, 2021	Oct. 19, 2020	Sept. 21, 2020	Sept. 21, 2020	Sept. 21, 2020

(i)The B/E rate reflects lease rate assumptions at closing. (ii)Includes factory units with committed leases. (iii)Includes factory units awaiting lease. (iv) Does not include factory units. NBV--Net book value. B/E--Break-even. N/A--Not applicable.

Portfolio distribution by equipment type and age

Table 2 shows a breakdown of the issuer's fleet by major equipment category as of Jan. 31, 2024.

Table 2

Portfolio distribution by equipment type and age as of Feb. 29, 2024

Equipment type	No. of units	% of units	NBV ($)	% of NBV	Weighted avg. age (years)
40' high cube dry	39,032	59.96	137,085,611	39.54	3.22
40' high cube reefer	9,527	14.64	113,220,776	32.65	2.81
40' flat rack	4,966	7.63	32,120,124	9.26	1.11
26,000 liter tank	1,033	1.59	15,903,211	4.59	1.87
45' palletwide	2,828	4.34	15,841,083	4.57	2.52
25,000 liter tank	692	1.06	12,507,150	3.61	1.33
20' dry van	5,143	7.90	9,903,162	2.86	1.40
40' open top	1,191	1.83	4,854,839	1.40	1.73
45' high cube reffer	95	0.15	2,068,095	0.60	1.44
40' Roll trailer	128	0.20	1,833,324	0.53	2.88
20' open top	303	0.47	793,091	0.23	2.77
20' flatrack	154	0.24	588,162	0.17	5.08
45' high cube dry	1	0.00	3,140	0.00	4.08

Table 2

Portfolio distribution by equipment type and age as of Feb. 29, 2024 (cont.)

Equipment type	No. of units	% of units	NBV ($)	% of NBV	Weighted avg. age (years)
Total/weighted avg.	65,093	100.00	346,721,768	100.00	2.65

NBV--Net book value.

Portfolio distribution by contract type

Table 3 details the breakdown of the issuer's containers by lease type as of Jan. 31, 2024.

Table 3

Portfolio distribution by lease type

Lease type	No. of units	% of units	NBV ($)	% of NBV
Long-term lease	58,191	89.40	296,367,933	85.48
Offhire	3,142	4.83	23,764,957	6.85
Service lease	2,912	4.47	18,322,326	5.28
Finance lease	848	1.30	8,266,552	2.38
Total	65,093	100.00	346,721,768	100.00

NBV--Net book value.

Portfolio distribution by customer

Table 4 details the issuer's expected lessee exposure by NBV for the pool of containers as of Jan. 31, 2024.

Table 4

Portfolio distribution by customer

Customer	No. of units	% of units	NBV ($)	% of NBV
1	6,639	10.20	64,542,857	18.62
2	9,876	15.17	58,494,389	16.87
3	9,968	15.31	37,302,315	10.76
4	7,704	11.84	27,692,172	7.99
5	6,560	10.08	26,528,122	7.65
6	7,661	11.77	26,402,374	7.61
7	454	0.70	8,132,204	2.35
8	360	0.55	6,183,521	1.78
9	444	0.68	5,388,698	1.55
10	932	1.43	5,325,116	1.54
11	1,382	2.12	5,135,276	1.48
12	2,406	3.70	4,662,837	1.34

Table 4

Portfolio distribution by customer (cont.)

Customer	No. of units	% of units	NBV ($)	% of NBV
13	326	0.50	3,527,284	1.02
14	838	1.29	3,145,560	0.91
15	345	0.53	2,934,435	0.85
16	334	0.51	2,720,690	0.78
17	598	0.92	2,246,056	0.65
18	372	0.57	2,052,029	0.59
19	658	1.01	2,038,753	0.59
20	170	0.26	2,026,538	0.58
Offhire	3,142	4.83	23,764,957	6.85
Other	3924	6.03	26,475,586	7.64
Total	65,093	100.00	346,721,768	100.00

NBV--Net book value.

Portfolio distribution by remaining term to maturity of the fleet term leases

Table 5 shows the expected portfolio distribution of leases by expiration year as of Jan. 31, 2024.

Table 5

Distribution of the collateral by lease expiration year

Lease expiration year	No. of units	% of units	NBV ($)	% of NBV
2024	1,625	2.50	10,940,119	3.16
2025	2,003	3.08	6,949,208	2.00
2026	5,875	9.03	32,807,812	9.46
2027	415	0.64	4,193,543	1.21
2028	8,955	13.76	78,177,321	22.55
2029	27,218	41.81	120,443,818	34.74
2030	2,567	3.94	16,765,818	4.84
2031	9,289	14.27	36,997,457	10.67
2032	219	0.34	1,325,817	0.38
2033	3	0.00	15,844	--
2034	366	0.56	2,027,539	0.58
2035	1,195	1.84	4,364,626	1.26
2036	938	1.44	3,430,901	0.99
2038	128	0.20	684,899	0.20
2039	695	1.07	1,325,671	0.38
Over lease term	460	0.71	2,506,419	0.72
Offhire	3,142	4.83	23,764,957	6.85

Table 5

Distribution of the collateral by lease expiration year (cont.)

Lease expiration year	No. of units	% of units	NBV ($)	% of NBV
Total	65,093	100.00	346,721,768	100.00

NBV--Net book value.

Portfolio distribution by utilization and per diem rate

Table 6 shows the expected portfolio distribution of containers by utilization and per diem rate as of Jan. 31, 2024.

Table 6

Portfolio distribution by per diem rates

Equipment type	No. of units	Weighted avg. per diem(i)
40' high cube dry	39,032	1.24
40' high cube reefer	9,527	4.49
40' flat rack	4,966	1.47
26,000 liter tank	1,033	3.86
45' palletwide	2,828	2.37
25,000 liter tank	692	3.66
20' dry	5,143	0.80
40' open top	1,191	0.67
45' high cube reefer	95	10.21
40' rolltrailer	128	6.68
20' open top	303	0.98
20' flat rack	154	1.67
45' high cube dry	1	1.15
Total/weighted avg.	65,093	1.83

(i)Weighted by units.

Cash Flow Assumptions

The series 2024-1 transaction's cash flows depend on a number of key inputs--some contractual (e.g., lease rates) and some modeled based on historical performance, rating-dependent economic scenarios, and our expectations of the containers' life spans. We have incorporated our stresses for each of those components into two sector downturns (one is four years long, and the other is three years long) during the fleet's life. The depth, length, and starting time of the downturns are rating-dependent, which means that to assign a higher rating, we assume deeper and longer downturns within a shorter time frame. Our internal cash flow model includes input assumptions, including:

- Fleet utilization;
- Lease rates (both long-term and per diem);
- Operating expenses (repair and storage);
- Container useful life and residual value;
- Lessee defaults;
- Container loss rate upon lessee defaults;
- DFL buyback rates; and
- DFL recharacterization risk for pools where this risk is significant.

We updated our operating and master lease rate assumptions on Sept. 14, 2023 (see "Global Container Lease-Backed ABS Methodology and Assumptions," published Sept. 14, 2023). Under our stress assumptions for the assigned preliminary ratings, we expect that the transaction will pay as per the terms in the transaction documents.

Cash Flow Results

Stress scenario and sensitivity analysis

We ran a number of stress tests in which we stressed cash flow through economic downturns, where both fleet utilization and re-leasing rates decrease while operating expenses increase. The magnitude of these stresses is rating dependent, as described in more detail in our criteria (see "Global Container Lease-Backed ABS Methodology And Assumptions," published Sep. 14 2023).

We modeled all stresses assuming all of the DFL buyouts are taken. Under all stress scenarios, the bonds paid as per the terms in the transaction documents (refer to the first two bullets of the Events of Default section) (see table 7).

Table 7

Series 2024-1 cash flow results

Description	Stress modeled	Outcome
Roll stress case--class A	70.00% applied default rate. Cut utilization to between 33.00% and 66.00% during phase II of the recession, reduce the base-case lease rates by 47.00% during phase II of the recession, and increase operating expenses by up to 17.30% during two sector downturns. 24.00% loss of containers following lessee default. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes, and 10.00% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 7.50% LT leases roll to LT leases.	Paid as per the terms in the transaction documents.
Roll stress case--class B	60.00% applied default rate. Cut utilization to between 50.00% and 75.00% during phase II of the recession, reduce the base-case lease rates by 35.00% during phase II of the recession, and increase operating expenses by up to 15.00% during two sector downturns. 20.00% loss of containers following lessee default. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes, and 10.00% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 25.00% LT leases roll to LT leases.	Paid as per the terms in the transaction documents.

Table 7

Series 2024-1 cash flow results (cont.)

Description	Stress modeled	Outcome
Roll Stress--class C	50.00% applied default rate. Cut utilization to between 66.00% and 82.00% during phase II of the recession, reduce the base-case lease rates by 25.00% during phase II of the recession, and increase operating expenses by up to 12.70% during two sector downturns. 16.00% loss of containers following lessee default. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes, and 10.00% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 50.00% LT leases roll to LT leases.	Paid as per the terms in the transaction documents.
DFL stress case--class A	70.00% applied default rate. Cut utilization to between 33.00% and 66.00% during phase II of the recession, reduce the base-case lease rates by 47.00% during phase II of the recession, and increase operating expenses by up to 17.03% during two sector downturns. 24.00% loss of containers following lessee default. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes, and 10.00% for others. Residual haircut only happens during downturns; haircut level follows the same pattern as reduced re-lease rate. 60.00% LT leases roll to LT leases.	Paid as per the terms in the transaction documents.
DFL stress case--class B	60.00% applied default rate. Cut utilization to between 50.00% and 75.00% during phase II of the recession, reduce the base-case lease rates by 35.00% during phase II of the recession, and increase operating expenses by up to 15.00% during two sector downturns. 47.00% loss of containers under DFLs, and 20.00% loss of containers under operating leases. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes; 10.00% for others. Residual haircut only happens during downturns, and haircut level follows the same pattern as reduced re-lease rate. 70.00% LT leases roll to LT leases. 24-month default delay for FL containers.	Paid as per the terms in the transaction documents.
DFL stress case--class C	50.00% applied default rate. Cut utilization to between 66.00% and 82.00% during phase II of the recession, reduce the base-case lease rates by 35.00% during phase II of the recession, and increase operating expenses by up to 12.70% during two sector downturns. 42.00% loss of containers under DFLs, and 16.00% loss of containers under operating leases. No operating expenses on DFLs. 90.00% ST utilization rate. 20.00% final depreciated value for dry boxes; 10.00% for others. 80.00% LT leases roll to LT leases. Residual haircut only happens during downturns, and haircut level follows the same pattern as reduced re-lease rate. 18-month default delay for FL containers.	Paid as per the terms in the transaction documents.

(i)Default rate reflects top six obligor concentration by NBV. (ii)Default rate reflects top four obligor concentration by NBV. DFL--Direct finance lease. ST—Short-term. LT--Long-term. FL--Finance lease. NBV--Net book value.

Break-even analysis

We also performed break-even tests to provide information about the transaction's cash flow to the key stress factors discussed above (see table 8).

Table 8

Series 2024-1 break-even results

Description	Stress modeled	Maximum haircut/cost increase where noteholders are paid in full
Revenue reduction break-even analysis	Gross revenue collection haircut at the rating scenario.	3.00% haircut to class A, 4.00% haircut to class B and 4.00% haircut to class C gross revenue collections.

If we lower our re-lease rate or utilization assumptions in the future, this will tend to make our rating stress scenarios more severe. Transactions with lower break-even percentages will generally be more vulnerable to a downgrade, especially if the reduction in our assumed rates exceeds the initially calculated break-even values. In the most recent revision to our assumptions from May 2020, we reduced lease rate assumptions for most of the container types in our rated securitizations (see the Related Research list).

Asset sale sensitivity analysis

We performed an additional stress scenario assuming a discretionary sale of containers over two years, in amounts permitted by the transaction documents. We calculated a 3.39% reduction in NBV (in addition to the estimated 24-month depreciation based on the TCILs depreciation policy), total original equipment cost, number of units, roll forward 24 months of scheduled note balance, lease expiration, and repline age. All classes were able to pay as per the terms in the transaction documents.

Off-hire sensitivity

We performed an additional stress scenario assuming containers currently off lease would remain off lease for the next 12 months. After which, they will be re-leased according to our cashflow assumptions. All classes were able to pay as per the terms in the transaction documents.

Payment Priority

On any payment date, the trustee will distribute the available distribution amounts for this series according to the payment priority in table 9.

Table 9

Payment waterfall

Priority	Payment
1	Indenture trustee for trustee fees (capped at $40,000 annually per series) and certain reimbursable expenses.
2	Director services provider fees (capped at $5,000 annually).
3	To the manager for the management fee, any excess deposits, and any management fees in arrears.
4	To the manager to reimburse manager advances.
5	Issuer expenses, such as transition agent fees, out-of-pocket expenses and indemnities (capped at $35,000) for the transition agent, and backup manager fees.
6	Auditing expenses and other issuer expenses capped at $50,000 annually.
7	Class A note interest.
8	Class B note interest and any unpaid class B deferred interest, payment from prior payment dates, and accrued interest.
9	Class C note interest and any unpaid class C deferred interest, payment from prior payment dates, and accrued interest.
10	LOC fees(i).
11	Replenish restricted cash account, then to reimburse unpaid LOC.
12	Class A scheduled principal amount.
13	Class A supplemental principal amount.

Table 9

Payment waterfall (cont.)

Priority	Payment
14	Class B scheduled principal amount.
15	Class B supplemental principal amount.
16	Class C scheduled principal amount.
17	Class C supplemental principal amount.
18	If a cash sweep event has occurred, pro-rata principal payments to the then-outstanding class A principal balance, the then-outstanding class B principal balance, and the then-outstanding class C principal balance from all remaining available funds until each of the class A principal balance, the class B principal balance, and the class C principal balance is reduced to zero.
19	Shared available funds to be allocated to such other series of notes in accordance with the terms of the Series 2024-1 supplement.
20	Class A all indemnities, expenses and other amounts then due and payable, if any.
21	Class B all indemnities, expenses and other amounts then due and payable, if any.
22	Class C all indemnities, expenses and other amounts then due and payable, if any.
23	To the transition agent to the extent not paid in item 5 above and to the backup manager, if any, pro rata.
24	To the indenture trustee for amounts not paid in item 1 above.
25	To the director services provider any unpaid amounts due.
26	Issuer and manager indemnified amounts.
27	Any remaining fees, indemnities, or other amounts due to the noteholders, director services provider, the manager, the backup manager, or the transition agent.
28	Remaining proceeds distributed to the issuer.

(i)The transaction contains no LOCs at closing. LOC--Letter of credit.

Payment priority after an early amortization event

If an early amortization event has occurred but no event of default is continuing, collections will be distributed according to the payment priority outlined in table 10.

Table 10

Payment waterfall after an early amortization event

Priority	Payment
1	Indenture trustee for trustee fees (capped at $40,000 annually per series) and certain reimbursable expenses.
2	Director services provider fees (capped at $5,000 annually).
3	To the manager for the management fee, any excess deposits, and any management fees in arrears.
4	To the manager to reimburse manager advances.
5	Issuer expenses, such as transition agent fees, out-of-pocket expenses and indemnities (capped at $35,000) for the transition agent, and backup manager fees.
6	Auditing expenses and other issuer expenses capped at $50,000 annually.
7	Class A note interest.

Table 10

Payment waterfall after an early amortization event (cont.)

Priority	Payment
8(i)	If an asset base deficiency has not occurred, the class B note interest, and any unpaid class B deferred interest payment and any accrued interest thereon. If an asset base deficiency event has occurred, the class B note interest, and any unpaid class B deferred interest payment and any accrued interest thereon shall be payable to the extent funds are available after clauses 1 through 7 above, and 10 and 12.
9(i)	If an asset base deficiency has not occurred, the class C note interest, and any unpaid class C deferred interest payment and any accrued interest thereon. If an asset base deficiency event has occurred, class C note interest, and any unpaid class C deferred interest payment and any accrued interest thereon shall be payable to the extent funds are available after clauses 1 through 8 above, and 10,12, and 13.
10	LOC fees(i).
11(ii)	If an asset base deficiency has not occurred to replenish restricted cash account, to reimburse unpaid LOC.
12	Class A note principal until zero.
13	Class B note principal until zero.
14	Class C note principal until zero.
15	Class A all indemnities, expenses, and other amounts then due and payable, if any.
16	Class B all indemnities, expenses, and other amounts then due and payable, if any.
17	Class C all indemnities, expenses, and other amounts then due and payable, if any.
18	Remaining series 2024-1 available funds to be allocated to such other series of notes in accordance with the terms of the series 2024-1 supplement.
19	To the transition agent to the extent not paid in item 5 above and to the backup manager, if any, pro rata.
20	To the indenture trustee for amounts not paid in item 1 above.
21	To the director services provider any unpaid amounts due.
22	Issuer and manager indemnified amounts.
23	Any remaining fees, indemnities, or other amounts due to the noteholders, director services provider, the manager, the backup manager, or the transition agent.
24	Remaining proceeds distributed to the issuer.

(i)If an asset base deficiency has continued for at least 60 consecutive days. (ii)The transaction contains no LOCs at closing. LOC--Letter of credit

Payment priority after an event of default

If an event of default occurs, collections will be distributed according to the payment priority outlined in table 11.

Table 11

Payment waterfall after an event of default

Priority	Payment
1	Indenture trustee for trustee fees (uncapped) and certain reimbursable expenses not including indemnity payments.

Table 11

Payment waterfall after an event of default (cont.)

Priority	Payment
2	Director services provider fees (capped at $5,000 annually for all series).
3	To the manager for any excess deposits and any management fees in arrears.
4	To the manager to reimburse manager advances.
5	Issuer expenses, such as transition agent fees, the backup manager fee, and out-of-pocket expenses and indemnities for the transition agent that are related to the backup manager fee.
6	Auditing expenses and other issuer expenses capped at $100,000 annually.
7	Class A note interest.
8	Class B note interest and any unpaid class B deferred interest payment from prior payment dates and accrued interest.
9	Class C note interest and any unpaid class C deferred interest payment from prior payment dates and accrued interest.
10	LOC fees(i).
11	Class A note principal until zero.
12	Class B note principal until zero.
13	Class C note principal until zero.
14	Class A all indemnities, expenses, and other amounts then due and payable, if any.
15	Class B all indemnities, expenses, and other amounts then due and payable, if any.
16	Class C all indemnities, expenses, and other amounts then due and payable, if any.
17	Reimburse unpaid LOC draws.
18	Remaining series 2024-1 available funds to be allocated to such other series of notes in accordance with the terms of the series 2024-1 supplement.
19	To the director services provider any unpaid amounts due.
20	Issuer and manager indemnified amounts.
21	Aggregate unpaid fees for each series of notes.
22	Remaining proceeds distributed to the issuer.

(i)The transaction contains no LOCs at closing. LOC--Letter of credit.

Events Of Default

Under the transaction documents, each of the following constitutes an event of default:

- A default in the payment of any interest on the most senior class of notes outstanding, provided that, nonpayment on the class B and class C deferred interest payments and accrued interest thereon, shall not constitute an event of default.
- A default on payments of the notes' then-unpaid principal balance, and all other amounts, including class B and class C deferred interest and interest accrued thereon, on the final maturity date.
- A default in the performance or a breach of any issuer or seller covenants that materially and adversely affect noteholder interests (subject to an applicable grace period);

- A breach of any issuer or seller representation and warranty included in the transaction documents that materially and adversely affects noteholder interests; and
- A bankruptcy event with respect to the issuer.

Early Amortization Events

Under the transaction documents, a cash sweep event will occur if any of the following events or conditions occur on a payment date (and has not been cured):

- Commencing with the payment date that occurs in June 2025, the EBIT ratio is less than 1.1 to 1.0; and
- The aggregate outstanding note balance is higher than the asset base for 30 days.

Cash Sweep Trigger Events

Under the transaction documents, an early amortization event will occur if any of the following events or conditions occur on a payment date (and has not been cured):

- The weighted-average age of all eligible containers exceeds 10 years; and
- The notes' principal balance is not fully repaid by the payment date that occurs in October 2031.

Legal Matters

In rating this transaction, S&P Global Ratings reviews the legal matters it believes are relevant to its analysis, as outlined in its criteria.

Surveillance

We use surveillance data to perform periodic reviews on all rated container securitizations to identify potential and emerging trends. Our ratings reflect our opinion of the transaction's ongoing risk profile. Our surveillance group undertakes a number of steps to determine whether the ratings assigned to a transaction continue to reflect our view of that transaction's performance. These steps include, among others:

- Analyzing the servicer reports that detail the underlying collateral's performance;
- Making periodic telephone calls and holding meetings with the issuer's and servicer's key management personnel to identify any emerging trends or changes in servicing standards;
- Monitoring the supporting ratings on a transaction; and
- Remaining informed of related industry developments and events that may affect a rated transaction's overall performance.

Despite the extensive and immediate disruption in certain sectors, the impact of the COVID-19 pandemic has been far less severe on the container leasing markets. For more information, see "Container And Railcar Leasing ABS Risks In Light Of COVID-19," published April 15, 2020. We will continue to review whether, in our view, the ratings assigned to the notes remain consistent with the credit enhancement available to support them, and we will take further rating actions as we deem necessary.

Related Criteria

- Criteria | Structured Finance | ABS: Global Container Lease-Backed ABS Methodology And Assumptions, Sept. 14, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
- Criteria | Structured Finance | General: Structured Finance Criteria Introduced For Cayman Islands Special-Purpose Entities, July 18, 2002

Related Research

- Container And Railcar Leasing ABS Risks In Light Of COVID-19, April 15, 2020
- Guidance: Global Container Lease-Backed ABS Methodology And Assumptions, Feb. 21, 2018
- Credit Rating Model: Container Assumptions Analyzer, Sept. 8, 2015
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014