STOCKTRADES PREMIUM COMPANY SUMMARY

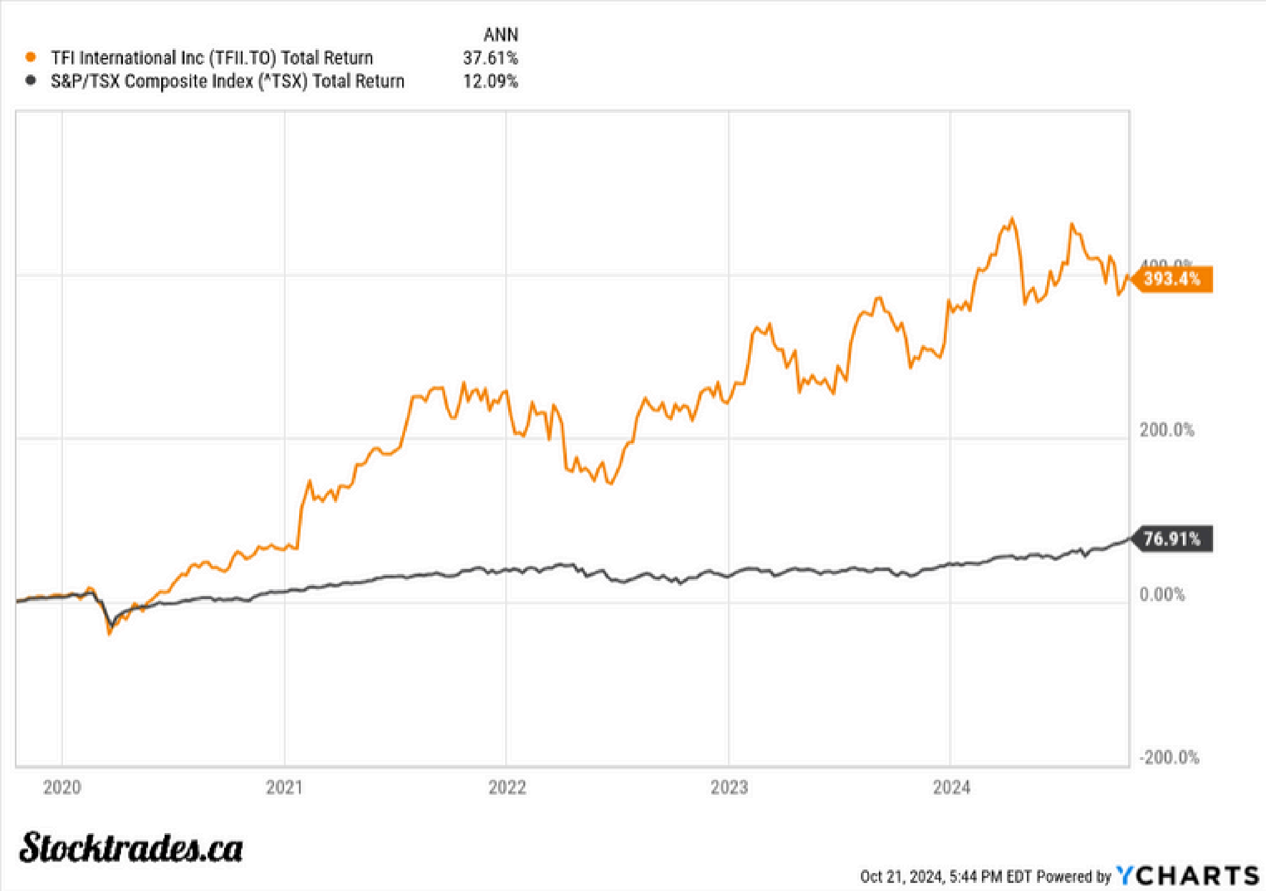
TFI INTERNATIONAL

TFII.TO

UPDATED OCTOBER 21, 2024

WWW.STOCKTRADES.CA

Stocktrades Premium



TFI International Inc is a transportation and logistics company domiciled in Canada. The company organises itself into four segments: package and courier, less-than-truckload, truckload, and logistics. The package and courier segment picks up, transports, and delivers items across North America. The less-than-truckload segment transports smaller loads. The truckload segment transports goods by flatbed trucks, containers, or a more specialised service. The company provides general logistics services through the logistics segment. TFI International derives the majority of revenue domestically, followed by the United States.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	51	Dividend	95
Profitability	35	Outlook	92
Risk	42	Debt	46
Returns	57	Growth	64
Overall	57		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- Company has a 10 year compound annual growth rate of 16%+ in terms of operating cash flow
- The acquisition of UPS freight is paying off earlier than expected
- TFI is the best-positioned logistics company in North America
- Proven track record of growth via acquisitions in a highly fragmented industry with 100+ acquisitions since 2008
- One of the most efficient trucking companies in North America
- Low-yielding but well-covered dividend. Despite rough economic circumstances, the company continually raises the dividend
- 100% of the company's debt is fixed rate at 4.5% interest, with a 9 year average maturity

CONS

- A slowdown in economic activity no doubt impacted Fiscal 2023 and is continuing to hit results in 2024
- A recession will ultimately result in lower demand for its services, we're seeing it already
- High interest rates will make acquisitions more costly
- Although the company can reduce the impact via fuel surcharges, rising fuel costs are certainly a concern
- Tempered short-term outlook due to economic uncertainty
- 37% of the company's business is involved in the retail and auto sector, which will no doubt see slowdowns moving forward

OVERALL THESIS

TFI International has a substantial footprint in North America, achieving this through a prudent acquisition strategy. The company only makes acquisitions that are immediately accretive to cash flow, fit within one of its four current segments (we'll speak on that later), has a U.S. or Canada footprint, and has a strong management team.

The bulk of the company's operations come from the United States, and the diversity of its customers will allow it to provide consistent cash flow in multiple environments. Yes, it has heavy exposure to retail and auto shipping (37%~). Still, the remaining 63%~ of the portfolio comprises 11 other sectors, including building materials, food and beverage, and energy. The company maintains double-digit returns on invested capital in every one of its segments except U.S. Truckload, and it is one of the best-managed companies in the country.

Many will ask, "What about the recession?" And to discuss that, we have to look at how the company has performed historically. From 2007 to 2012, arguably one of the worst recessions since the great depression, TFI International's Adjusted EBITDA margins were maintained. The industry is heavily fragmented, and we witnessed TFI International taking advantage of this during the height of the pandemic, as they bought up assets for pennies on the dollar from struggling companies. We feel that even if we were to enter a recession in

Canada and the United States, the company could continue its plan of strategic acquisitions to fuel growth, as it is one of the best-positioned trucking companies in North America.

The company has a solid balance sheet that can withstand any economic circumstances. 100% of its debt is fixed at an interest rate of 4.5%. In addition, its debt has an overall maturity of 9 years. This means a “higher for longer” interest rate situation would not impact TFI as badly as some other companies. In our opinion, if the market were to react to a decline in earnings or recession fears, it would be nothing more than a fantastic opportunity to accumulate this industry leader at cheaper prices. The stocked has developed a trend of which it corrects by 20%+ before rebounding to new all-time highs.

There is also the continuing catalyst that is the folding of Yellow, a major trucking company in the U.S. While TFII has no intentions of chasing new business outside of its current strategy (high density), it has already seen an uptick in LTL shipments because of this, and while it is not yet known where that will settle it is receiving new business from many existing customers. The other benefit is that Yellow was a low-cost trucking company, often undercutting the markets. As such, according to management, it is a benefit to the entire industry in terms of pricing.

POTENTIAL RISKS

Although for an acquisition-heavy company like TFI International, a fragmented market seems ripe for the picking, it also comes with some downfalls. The freight industry is highly competitive, and there are opportunities for lower-cost shippers to enter the space and undercut TFI's prices to steal customers. The company also uses debt and share offerings to fuel some of its acquisitions. After nearly 5 years of buybacks and share reductions, the company had increased its share count by 11% post-pandemic. Thus far, the share dilution has proven to be more than worth it as the company has made some notable acquisitions, but it is far from guaranteed. Amid the economic uncertainty, primarily from a valuation standpoint, the company seems to have returned to buyback mode. However, now that its share price appears to be fully valued, it may look to acquire again. So, the risk still does exist.

Beta	**1.33**
Alpha	**23**
Our Risk Rating	**Mod***
Max Drawdown	**48.9%**

Growth-by-acquisition companies inherently have more risk, as synergies can end up being lower than expected, or acquisition costs can increase due to increased bids from competitors. There are also fears of a recession or stagflation over the next few years.

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

Although TFI International has navigated similar situations, there is no guarantee it will do so in the future. A stagflation or deflation environment will present additional difficulties beyond what it witnessed in the 2008 Financial Crisis. TFI is also exposed to high fuel costs and inflationary pressures.

Yes, the company does charge fuel surcharges and is somewhat sheltered from fuel prices. However, if costs get too high to ship, there is a chance we could see a slowdown in shipping activity from its clients as they either wait things out or look for cheaper alternatives.

With the demise of Yellow, TFII becomes the last major trucking company with a union. The risk here is higher costs and demands that far exceed the company's ability to turn a profit. It was one of the factors that played into Yellow ceasing operations. That said, management had this to say when asked about their position on unions "It's our goal, us, to make sure that we can grow in a unionized environment by paying our employees well, but also by making sure that they are efficient at what they do and productive." They are pro-union and don't view unions as an excuse for poor results.

VALUATION

	TTM	5 Year Average	Industry Average
P/E	24.8	15.2	N/A
P/S	1.4	1.28	N/A
P/B	4.5	3.8	N/A
P/FCF	18.7	16.6	N/A
PEG Ratio (FWD)	0.6	N/A	N/A

When we initially added TFI International to the Bull List, the central thesis behind the company was that it was a triple threat, meaning it provided strong value, income, and growth from a shareholder perspective.

With the company growing the dividend by 54% over the last 3 years, the income portion is still well intact. And considering the company is expected to grow revenue and earnings by double digits over the next few years despite the economic circumstances, there is still a lot of growth potential.

Our views on TFII's valuation are proving to be just as volatile as the stock. It tends to reach all-time highs before going through a 20%+ correction in price that makes it attractive yet again. At the time of update, it is currently going through a bit of a correction due to some weak results because of the poor economy. It is possibly this pricing trend could change because of the macro-economic conditions.

However, it‘s important we don‘t let short-term price movements impact our investing decisions. Considering TFI‘s growth trajectory, this is still very much a GARP (Growth At a Reasonable Price) play. Could a rebound trend after a correction not materialize next time? Sure it could. However, after each of those corrections it‘s made new highs and in reality short-term price movements are irrelevant over the long-term, which should be the approach when it comes to buying equities.

The company is trading at just shy of 16x expected earnings, and despite some pretty rough economic circumstances is expected to grow earnings at a 20%+ pace for the next 3 years. As a result, the company has a PEG ratio of 0.6x, suggesting that the market is not yet reflecting this future growth in its share price.

We’re cautiously optimistic in this regard. The trajectory of TFI’s earnings is going to be heavily dependent on the ability for Canada and the United States avoiding a deep recession. However, we still feel that it is an amazing company trading at a fair price today.

COMPETITOR ANALYSIS

While the trucking industry is still highly fragmented, given the size of TFI International's footprint, there is plenty of competition from transport companies in Canada, the U.S., and Mexico. Due to this, competition is one of the most significant risk factors for TFI International. In Canada, there are two publicly traded companies in the space - Mullen Group (MTL) and Titanium Transportation (TTR).

TTR is still only a microcap, leaving Mullen as the closest in direct comparisons, and TFI International is not only cheaper but growing faster. In the U.S., similarly sized trucking companies include Knight-Swift (KNX), XPO Logistics (XPO), and Grab Holdings (GRAB). Only one (KNX) pays a dividend, and while most are cheaper than TFI, none have the history of execution or growth rates to match TFII - KNX is the closest in that regard.

DIVIDEND ANALYSIS

Annual Dividend	FCF Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
$1.80(USD)	18%	16%	14

While TFI's yield won't do much for those seeking higher income, one must not discount the company's strong history of dividend growth. It is a Canadian Dividend Aristocrat, achieving 14 consecutive years of annual dividend growth.

Over this period, the company has averaged double-digit growth, and its five-year average currently sits just shy of 16%.

The company increased the dividend from $1.08 to $1.40 per share in late 2022, and recently raised the dividend in late 2024 to $1.80 a share, a 13% increase.

With payout ratios in the high-teens range when it comes to free cash flow, there should be plenty of room for this company to continue the outstanding pace of dividend growth despite some rough earnings.

It seems like the company is falling into the pattern of raising the dividend in the latter portions of the year. So, we can expect the next increase to come towards the end of 2025.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	$9.12	$11.88	$14.24
Revenue	$12B	$13.1B	$13.74B
EBITDA	$1.9B	$2.2B	$2.4B
EBITDA Margins	16%	17.1%	18.34%

TFI posted a relatively soft third quarter, missing expectations on the top and bottom lines. Revenue of $2.1B missed expectations by around $100M, and earnings per share of $1.60 came in well below estimates for $1.77.

The company is no doubt starting to feel the impacts of a weakening economy, and lower demand for freight is starting to hit the company from an earnings perspective. It is important to understand that situations like this are not an abnormal occurrence when it comes to cyclical stocks, and we do have to make sure we don't get too emotional on both the highs and the lows.

The company's less-than-truckload segment faces the largest headwinds, with revenue down 8% year-over-year. This shouldn't be all that surprising. The economy is much weaker now than a year ago, and this will arguably be the most cyclical segment of the business.

The company's truckload business saw significant growth on the quarter, up over 80%. However, this was exclusively fueled by acquisitions. If we look to revenue prior to acquisition contributions, it declined at a similar pace to its less-than-truckload segment. The situation in its logistics segment is similar. We're witnessing acquisition-based growth on a revenue basis, but organically, revenue is declining.

Operating income, at least from an organic perspective, also declined in practically every business segment. The company reported low single-digit growth in many of its business segments if we factor in acquisitions.

There isn't much to dig into the quarter for TFI outside of the fact that the slowdown is hitting every aspect of the business. However, acquisitions are making up for it at this point, and it is reasonable to say this company should be in great shape when the economy turns around and freight demand increases.

The company's free cash flow generation remains strong, increasing by low-single digits compared to last year. The company chose the prudent avenue for this cash flow, utilizing more than half of it to pay off over $130M in debt related to acquisitions.

The company remains relatively muted in its forward-looking guidance, instead mentioning the numerous potential hardships that could come if the economy were to continue to weaken. As I've mentioned prior in this report, cyclical stocks will be cyclical. Once we understand that the current environment is outside of the company's control and operations are still going relatively well considering the circumstances, we can feel confident adding to the company on weakness. I do believe we will get that period of weakness from TFI after this quarter.

DISCLAIMER

By utilizing this report, you agree that you are a Stocktrades Premium member, and you agree to our terms and conditions and privacy policy. You acknowledge that any distribution of this report outside of Stocktrades Premium could result in the immediate cancellation of your Premium subscription. You also agree to the following:

This stock report is solely for informative purposes, and does not represent a buy or sell recommendation. The information expressed in this report is the opinion of the analyst about the subject company and our database of stocks in general. The information the analyst used to compile this report comes from sources we believe are reliable. Stocktrades Ltd however makes no warranties of any kind as to the completion or correctness of the information within this document.

All information in this report is accurate as of the date of this report, and all data contained within this report of the subject company is of the analyst's best judgement at the date of the report. The information contained in this report is subject to change without notice. The information provided in this report is provided for informational purposes by Stocktrades Ltd and Stocktrades Ltd assumes no legal responsibility or liability. Anyone using this report assumes full responsibility for whatever decision is arrived at by using the details of this report.

Stocktrades Ltd. assumes no liability or legal responsibility for the resulting actions and or consequences of using outdated information. No version of this report outside of the original located at www.stocktrades.ca/premium/ is to be considered to contain live, or accurate information. These reports are updated quarterly and it is the users responsibility to insure they have the most recent updated version.

You may not alter or distribute this report in any way without the full consent of Stocktrades Ltd.

The decision to purchase or sell of a security depends on a multitude of individual factors such as but not limited to risk tolerance, financial situation, and investment objectives.