# TransForce Freight International [NYSE: TFII]

## Initiate at BUY | PT: $134.24

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CIMG Investment Research

## TFI International: Backbone of Commerce

TransForce Freight International is transportation and logistics company, that serves customers in the US, Canada, and Mexico. Since the 90s, TFI has grown substantially within this market, acquiring over 190 companies in the period of 1996 and 2021. To this point, they have been able to grow to the 6th largest LTL and Truckload company in North America (in terms of revenue). Through their service offerings – logistics, less-than-load trucking, truckload shipping, and package and courier – they offer full services that optimize safe and effective solutions. Recently in 2021, they acquired UPS Freight, and we believe that with this acquisition and our thesis points, they are an exciting company in the transportation space.

## Investment Thesis

**Opportunities for tuck-in acquisitions that are available will grow.** TFI has had been able to maintain a strong balance sheet which will allow them to continue to grow. Over the last six years, they have been consistently reducing their total debt/EBITDA, which gives them further leeway to make more acquisitions in their space. Specifically, cash and new potential debt affords TFII $4,219 mm of new deal financing, and recession gives the opportunity to purchase trucking assets at a discount. Right now, their current total debt is hovering around $2,119 mm, with a capacity of $4,204 mm. Making new acquisitions is not new to TFI, either; they have made more than 108 acquisitions since 2008 where they were able to take advantage of the recession. We believe with the power of their current balance sheet; they will continue this positive trend.

**The UPS Freight acquisition gives TFI the opportunity to expand.** For a brief overview of the acquisition, TFI acquired UPS Freight in 2021 for $800 mm. This acquisition was recognized as a gain on bargain of $194 mm, and it was an expansion of a $3 billion revenue segment that had a 99% OR. Overall, this acquisition gives them other large opportunities as they seek to optimize this new revenue stream. We believe that overtime, their new acquired revenue will eventually turn into "good" shipments. I.e., it will become more efficient, and emphasize higher weight deliveries as well as contracts that require less delivery time. Putting numbers to this point, the US LTL market as ~75% of LTL revenue that operates at 90 OR while 25% operates around 78. Creating further efficient will drive further growth/earnings, even if top-line slows during recession.

**Finally, we believe growth in the less-than-load trucking space provides growth potential for TFI.** TFI's LTL segment operates using the hub-and-spoke (HAS) model, which removes the need for cross-country driving, and allows faster deliveries. In addition, it gives better driver satisfaction due to the alleviated burden on drivers' personal lives. These shorter routes also provide the chance for better customer relations, as drivers will due do the same routes on a regular basis which encourages customer loyalty/retention.

Due to the HAS model, it creates a larger moat because of the investment necessary in creating these hubs, which TFI has already expanded into. Going more into the broader economic setting, TFI's LTL segment is perfectly positioned to take advantage of the continued rise in small business and e-commerce. The aforementioned markets are still only 8.9% of all retail and expected to grow 2-4% by 2026.

## Aerospace, Defense, and Transportation


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| Price | $90.48 |
| Dividend Yield | 1.08% |
| PT | $134.24 |
| Upside | ~43.9% |
| 52-Week Range | $71.63 – $120.50 |
| Dil Shrs Outstand | 88.73mm |
| Mkt Cap | $8.36bn |
| Ent Value | $10.46bn |
| P/E | 13.66x |
| NTM EV/EBITDA | 7.7x |
| FY 2021 Revenue | $7.22bn |

## Company Overview

TFI International Inc. is a North American transportation is a company that works in US, Canada, and Mexico, and spans a network of more than 80 North American cities. In terms of company segments, they work in four distinct spaces. First off is the less-than-truckload (LTL) space, comprising around 43% of their revenue. LTL trucking refers to transporting packages between 150 lbs. and 20,000 lbs. – for customers who have outgrown standard Package & Courier shipping but are not chartering their own full semi-trucks. Their next largest segment is the truckload segment, which is summarized by the pickup from shipper, delivery to consignee, and then the pickup of the next truckload. This segment comprises around 27% of their revenue. Finally, they operate segments in logistics and package and courier, which make up 22% and 8% of their revenue, respectively. Within logistics, TFII offers asset-light logistics services, including brokerage, freight forwarding, and transportation management, as well as small package parcel delivery services. The Package and Courier segment provides seamless door-to-door service by incorporating time-definite parcel delivery.

TFII is a company that is consistently working to acquire companies that they believe will give them a leg-up against other competition. Notably, their 2021 $800 million acquisition of UPS Freight vastly expanded their capacity and changed their future as a company. In addition to this, they also operate the largest trucking fleet in the US and Canada, with over 13,206 tractors, 48, 817 trailers, and 567 facilities.

## Industry Overview

Less-than-load (LTL) transportation refers to a shipping method that freights packages between 150 and 20,000 pounds. This is perfect for customers who have outgrown parcel shipping with FedEx, UPS, and USSPS but do not have a need to charter full semi-trucks (known as truckload). In practice, most LTL shipper pick up shipments from multiple shippers along their pickup routes and combine them into a nearly full trailer. From there, these shipments are routed to a hub, or service center, where the packages can be loaded onto regional tractors to go out for local delivery or transported by a linehaul driver to another service center. This is known as a hub-and-spoke (HAS) model, where the hubs are the service centers for the regional pickup and delivery (P&D) routes. The HAS model for LTL shipping creates a natural barrier to entry for industry entrants. Significant capital investment is required to build out the network of service centers necessary for inter-regional or national LTL companies. It is a much lower investment to enter the truckload space because this real estate investment is not necessary.

TFII also occupies the truckload shipping space, which is the backbone of American industry. For starters, the truckload shipping industry has low barriers to entry, which bolsters competition and can make profitability more difficult. In regard to the actual drivers of the trucks, there is irregular schedules for shipping which makes it hard to have a consistent workforce. Trucking also has relatively constrictive regulations, with hours-of-service limiting drivers' drive time, in addition to o0ther environmental regulations.

Finally, TFII also operates in the logistics and package and courier space. In short, the logistics industry is the supply chain network that links producers and consumers and is made up of several different modes – air, maritime, and most importantly for TFII, freight and trucking. Trends facing this industry span from supply-chain shortages as well as the proliferation of Ecommerce. The package and courier space is a firm or person that is legally allowed to transport packages.