

Fitch Assigns 'A-' Ratings to TTX Company; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has assigned an initial Issuer Default Rating (IDR) of 'A-' to TTX Company (TTX). In addition, Fitch has assigned long-term ratings of 'A-' to TTX's revolving credit facility, unsecured medium-term note program, and unsecured medium-term notes. The Rating Outlook is Stable. Approximately \$2.5 billion of outstanding notes is covered by these ratings. A full rating list follows at the end of this release.

KEY RATING DRIVERS - IDRs and SENIOR DEBT

The ratings and Stable outlook reflect TTX's unique competitive advantages associated with its ownership structure and regulatory exemption status, as well as its consistent operating performance through various market cycles, strong liquidity given stable operating cash flow generation, and solid capitalization and balance sheet leverage levels. These strengths are counterbalanced by the cyclical nature of the rail industry, the reliance on regulatory exemption to maximize the business model, and modest profitability.

TTX is a privately held corporation that provides a standardized, free-running fleet of railcars available for use by North American railroads. TTX's corporate structure, which Fitch views as utility-like, is an important rating consideration because a significant number of the major North American railroads represent the ownership group of TTX and also account for substantially all of the company's lease revenues. Fitch views TTX's relationship with its highly rated railroad owners as providing it with various benefits including enhanced market information and planning, increased efficiency and improved capital markets access, among others.

TTX's fleet is subject to car contracts and pooling agreements approved and authorized every 10 years by the Surface Transportation Board (STB) of the U.S. Department of Transportation. This authorization permits TTX the ability to operate as a railcar pool, providing railcars to its ownership group in a more efficient manner than may otherwise be achieved. The current authorization is scheduled to expire in October 2014 and the company is currently seeking reauthorization for a period of 15 years. Fitch expects TTX will receive approval prior to this expiry, particularly given that the company has previously been reauthorized by the STB in 1989, 1994 and 2004.

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Fitch views regulatory risk as material, should the STB not reauthorize TTX's pooling authority or materially restrict its pooling activity. Fitch's ratings incorporate an assumption that TTX is able to obtain STB approval, but should this not be the case in the future, it could have negative rating implications.

TTX sets its car hire rates at the lowest level required to achieve its financial targets while maintaining and managing its fleet appropriately. Since TTX does not aim to maximize profits, overall operating performance is modestly weaker relative to peers, but this is not viewed as a material rating constraint particularly given how rental rates are set relative to capital expenditures and maintenance expenses.

Fitch expects overall revenues and maintenance expenses to grow in tandem, as rail volumes and overall demand increase in the near to medium term.

Fitch believes the company's depreciation policies are generally in line with industry practices. While TTX bears some residual risk in the value of its railcars, the long economic and regulatory lives of the assets offset this risk and historically the company has disposed of its railcar at a gain. Relative to other large equipment lessors, the risk of fleet obsolescence is modest and the company has been able to adapt its fleet as necessary to meet changing market dynamics and further extend the useful life of its railcars. As such, impairment charges and write downs have been minimal through time.

TTX's liquidity profile is considered strong given stable operating cash flow generation through time and the ability to regulate capital expenditures during periods of stress. Fitch views positively TTX's consistent capital markets access, through the issuance of unsecured notes, and to a lesser extent secured notes. Although TTX's debt is not guaranteed by its highly rated railroad owners, Fitch believes the relationship has indirectly benefited TTX's capital market access.

The company's debt maturity profile is well-laddered and available cash on hand and cash flow generated from operations are viewed as sufficient to repay upcoming debt maturities. Most recently, the company raised medium-term notes in September and December 2013 at reasonable market terms. The company also benefits from a robust pool of unencumbered assets, which provides TTX additional financial flexibility in times of market stress.

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Fitch views TTX's capital base as being of good quality, comprised primarily of retained earnings with no goodwill or material intangibles. Leverage, on the basis of total debt to tangible equity, is solid and has remained relatively stable through time, averaging 1.8x over the last five years. Tangible equity is calculated by subtracting from shareholder's equity, TTX's debt issuance costs and deferred tax assets, net of allowance. However, cash flow leverage, on the basis of total debt to EBITDAR, has averaged 4.9x during the same period and has trended up over the last several years, as TTX increased capital expenditures to replenish its railcar fleet to meet demand. The company does not have an explicit dividend policy. TTX has only paid special dividends to its railroad owners twice in its operating history, most recently in 2000. In periods where revenues are in excess of its financial targets, TTX may offer rate reductions, redeploy cash for capital expenditures, increase maintenance expenditures or reduce maintenance backlog.

RATING SENSITIVITIES - IDRs and SENIOR DEBT

Fitch believes positive rating actions are limited given TTX's monoline strategy, the cyclicity of its business, its corporate structure, and consequently the concentration of its ownership and revenue sources. That said, modest rating upside over the long-term could be driven by a more permanent regulatory exemption status, further improvements in the diversity and credit quality of TTX's ownership group, a sustained increase in U.S. rail usage/demand and continued conservative leverage and liquidity metrics.

Conversely, negative rating actions could be driven by a material increase in leverage levels or a failure to obtain on-going STB authorization, which eliminates or severely restricts TTX's pooling activity. Given the direct and indirect benefits TTX derives from its ownership group, a decrease in the diversity and/or credit quality of its ownership group could adversely impact ratings. Lastly, a reduction in fleet utilization and/or an increase in impairments either of which materially reduces cash flow or fixed charge coverage could also put negative pressure on TTX's ratings.

Formed in 1955, TTX is a privately-held corporation based in Chicago, Illinois. The company is a leading provider of railcars in North America, with a fleet of approximately 150,000 as of Dec. 31, 2013.

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Fitch assigns the following ratings to TTX:

--IDR 'A-';

--Senior unsecured revolving credit facility 'A-';

--Senior unsecured medium term note program 'A-';

--Senior unsecured medium term notes 'A-'.

The Rating Outlook is Stable.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--Global Financial Institutions Rating Criteria (Jan. 31, 2014);

--Finance and Leasing Companies Criteria (Dec. 11, 2012).

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Global Financial Institutions Rating Criteria

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http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

Finance and Leasing Companies Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696720

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