Triumph Financial TFIN | Disclosure: Long	PRICE 2/15/24	$79.50	SHARES OUT	23.3m	MARKET CAP	$1.85bn

DESCRIPTION: Texas-based bank with operations in the Midwest and Colorado. Focused on transportation financing, including equipment finance, factored receivables, and transportation financial technology.

PREVIOUS ANALYSIS:
Deep Dive: Nov/Dec 2022
LINK TO BACK ISSUES

	Figures in millions $	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
OVERALL BANK	Total assets	$1,288	$1,448	$1,691	$2,641	$3,499	$4,560	$5,060	$5,936	$5,956	$5,334	$5,347
	Total loans, net	883	1,000	1,281	2,012	2,792	3,583	4,168	4,926	4,833	4,083	4,128
	Total deposits	1,045	1,165	1,249	2,016	2,621	3,450	3,790	4,717	4,647	4,171	3,977
	Noninterest bearing deposits % total	14.4%	15.4%	13.5%	18.0%	21.5%	21.0%	21.4%	28.7%	41.4%	42.1%	41.0%
	Shareholders' equity	151	228	258	280	382	637	637	682	814	844	819
	Tangible equity	122	199	230	233	318	437	446	492	537	578	562
	Shares outstanding	9.8	18.0	18.0	18.1	20.8	26.9	25.0	24.9	25.2	24.1	23.3
	Net interest income	39	80	91	112	156	227	256	285	369	400	368
	Net income to common	12	17	28	20	35	51	59	62	110	99	38
	After-tax ROAA	0.92%	1.24%	1.81%	0.91%	1.15%	1.27%	1.22%	1.13%	1.85%	1.76%	0.71%
	Share issuance (repurchase)	$42	$84	($0)	($1)	$65	$192	($65)	($36)	($0)	($75)	($80)
	(Acquisitions) dispositions	$75	($49)	($128)	($14)	$45	($142)	$0	($130)	($97)	$0	($3)
BANKING	Total banking loans		$825	$1,077	$1,789	$2,436	$2,991	$3,575	$3,876	$3,168	$2,883	$3,046
	Net charge off rate % average banking loans			0.03%	0.23%	0.22%	0.23%	0.14%	0.04%	0.00%	0.03%	0.00%
	Noninterest expense / avg. banking assets			1.16%	1.40%	1.84%	2.33%	2.72%	2.88%	3.29%	3.71%	2.52%
	Pre-tax ROAA (adjusted & annualized)			1.22%	1.08%	1.22%	1.21%	1.12%	0.91%	1.29%	0.88%	2.77%
	Adjusted operating income	$6	$16	$17	$23	$37	$48	$53	$49	$73	$46	$136
FACTORING	Accounts receivable purchased		$1,413	$1,625	$1,828	$2,766	$5,120	$5,675	$7,135	$13,125	$14,943	$10,837
	Factored receivable period end balance		$170	$187	$213	$346	$589	$573	$1,037	$1,546	$1,152	$942
	Number of invoices purchased (000s)				1,401	1,810	2,897	3,452	3,909	5,795	6,608	5,820
	Average transportation invoice size ($)					$1,460	$1,662	$1,508	$1,682	$2,152	$2,161	$1,810
	YTD charge-off rate				0.32%	0.41%	0.37%	0.40%	0.42%	3.49%	0.32%	0.97%
	Adjusted operating income		$8	$12	$10	$15	$26	$37	$32	$100	$116	$32
PAYMENTS	Amount of payments processed						$328	$975	$4,235	$15,162	$23,263	$21,518
	Factored receivable period end balance							$11	$84	$153	$86	$175
	Number of invoices processed (000s)							875	4,439	13,483	17,658	19,529
	Network invoice volume (000s)										472	1,087
	Network payment volume										$973	$1,840
	Adjusted operating income (loss)							($6)	($8)	($15)	($21)	($14)

Q4 & 2023 UPDATE

Triumph's fourth quarter and full year 2023 results reflected the continued headwinds from a weak freight market. The bank also reported meaningful progress in payments. I think it important to view TFIN as three separate businesses, though of course they all interact and, in some cases, depend on the others.

Banking – The company likes to put payments out front, but the traditional banking segment has the greatest potential for credit losses. In my mind risk goes first. Total banking loans increased 5.7% from $2.9 billion at 12/31/22 to $3 billion at 12/31/23 (a slight decrease from Q3 at $3.16bn). Major contributors included increases of 20% in CRE, 50% in construction / land development, and 11% in mortgage warehouse loans offset by some declines, the most notable of which was the 44% drop in liquid credit (leveraged loans).

Net charge-offs increased from near zero last year to 0.20% of banking assets or 0.32% of banking loans.

Charge-offs included $8.6 million (nearly all of the $9.6 million, net) for three liquid credit relationships.

TFIN benefits from an asset-sensitive balance sheet and a nice slug of noninterest bearing deposits (41% of year-end deposits). Net interest margin at the banking segment increased from 3.71% in 2022 to 5.04% in 2023. Banking reported 2023 operating income of $136 million or a pre-tax ROAA (by my calculation) of 2.77%.

Factoring – TFIN's focus on transportation payments exposes it to the truckload spot rate market. A slowdown in freight volumes is causing an overhang of capacity, leading to lower prices and lower volumes. TFIN's average transportation invoice size ticked up to $1,781 from the low of $1,772 hit in Q3.

For the year, volume decreased 12% and average invoice size decreased 11% which resulted in a 22% decrease in purchased volume. Operating income fell by 72% to $32 million. The full year results included a Q2 $3.3 million charge off from an over-formula advance related to the Covenant portfolio. Covenant reimbursed TFIN $1.7 million per the agreement, however, that payment does not offset the charge-off as it's accounted for separately. Adjusting for the reimbursement the charge-off rate of 0.81%.

Payments – TriumphPay is just as exposed to the transportation market as the factoring segment. But the company made important progress expanding the network and onboarding new relationships. This included the introduction of LoadPay, a customer-facing app that allows truckers quick access to funds, among other features.

Triumph's success in payments is evidenced by its growth even in the face of a weak freight market. Invoice volumes increased 24% year over year, payments volume increased 11.5%, and network invoice volumes increased 181%.

TPay now has three of the top 5 brokers, six of the top ten, and 55 of the top 100.

Another big benefit related to TPay is float. Even though it only sticks around for a day to a week, the average float of $300 million in today's interest rate environment is very attractive and was a big reason why the segment became cash flow positive a year ahead of schedule.

Capital allocation – In two purchases in February and April, the bank repurchased $82 million, net, of its own stock at an average price of $58 per share, implying a market cap of about $1.4 billion.

As I noted in my last update, I see the current weakness in transportation as clearly cyclical, simply a part of doing business. I don't think it impairs TFIN's long-term earning power.

Shares are up over 25% since my last update in October 2023. CEO, Aaron Graft, implied on the recent conference call that he thought shares weren't overvalued. "… at our current valuation, I don't see that [repurchases] being something that we will act upon." I still see meaningful earning power from the entire organization including payments which has considerable upside potential.

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