FedEx Corp. (FDX)

Updated September 17th, 2018 by Bob Ciura

Key Metrics

Current Price:	$246	**5 Year CAGR Estimate:**	14.4%	**Volatility Percentile:**	63.7%
Fair Value Price:	$283	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	54.4%
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	3.4%	**Valuation Percentile:**	83.2%
Dividend Yield:	1.0%	**5 Year Price Target**	$471	**Total Return Percentile:**	89.6%

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It is one of the two industry giants in the U.S., along with close competitor UPS. FedEx was founded in 1971, and today has a market capitalization of $64.7 billion. The company offers a variety of services including transportation, e-commerce, and business services. It operates five core segments: FedEx Express, TNT Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx provides domestic and international shipping for package delivery, freight, both air and ground. It also provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services.

On 9/17/18 FedEx reported financial results for its fiscal 2019 first quarter. Revenue of $17.1 billion rose 11.8% from the same quarter last year, and beat analyst expectations by $220 million. However, adjusted earnings-per-share of $3.46 missed analyst expectations by $0.36 per share. As a result, it was a mixed quarter for FedEx. Still, despite missing earnings, FedEx grew earnings-per-share by 38% from the same quarter last year. In all, FedEx performed well last quarter. And, the company raised guidance for the full year.

Per-Share Growth

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.76	$3.76	$4.90	$6.59	$6.23	$6.75	$8.95	$10.80	$12.30	$15.31	***$17.50***	***$28.18***
DPS	$0.44	$0.44	$0.48	$0.52	$0.56	$0.60	$0.80	$1.00	$1.60	$2.00	***$2.60***	***$4.19***
S/O(m)	312.0	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	***265.0***	***250.0***

FedEx has increased earnings-per-share at a very high rate in the years since the Great Recession. As a global transport, FedEx is an economic “bellwether”, a term used to describe a company that benefits from global economic growth (and vice versa). In addition, FedEx’s high earnings growth is due to the e-commerce boom. Consumers are doing a much higher portion of their shopping online, which requires shipping services. As a result, only a deep recession would severely inhibit FedEx’s future growth. After raising guidance, FedEx now expects earnings-per-share in a range of $17.20 to $17.80 for fiscal 2019, up from $17.00 to $17.60 previously. We expect 10% earnings growth each year from fiscal 2019-2024. Dividends are expected to rise at 10% in 2019 and each year through 2024.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	17.0	17.5	20.6	17.9	13.0	15.0	18.5	18.4	14.4	14.6	***14.1***	***16.7***
Avg. Yld.	0.4%	0.7%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	***1.1%***	***0.9%***

FedEx stock trades for a relatively modest valuation, particularly since the company has a long history of generating high earnings growth. Based on fiscal 2019 earnings guidance, FedEx stock currently trades for a price-to-earnings ratio of 14.1; this is below the 10-year average price-to-earnings ratio of 16.7. We view the 10-year average as a reasonable estimate of fair value. If the stock valuation returns to its 10-year average, expansion of the stock valuation would result in annual returns of 3.4% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	123%	91.7%	28.4%	29.1%	28.0%	29.5%	29.4%	25.7%	28.4%	28.1%	***28.0%***	***28.0%***
Debt/A	43.8%	44.5%	44.4%	50.8%	48.2%	53.8%	59.0%	70.0%	66.9%	62.9%	***63.0%***	***63.0%***
Int. Cov.	12.9	27.8	30.5	81.9	72.5	26.9	8.4	9.8	10.6	9.6	***9.5***	***9.5***
Payout	11.7%	11.7%	9.8%	7.9%	9.0%	8.9%	8.9%	9.3%	13.0%	13.1%	***15.0%***	***15.0%***
Std. Dev.	49.6%	25.8%	29.0%	16.5%	22.8%	15.4%	18.1%	26.6%	17.3%	23.1%	***23.0%***	***23.0%***

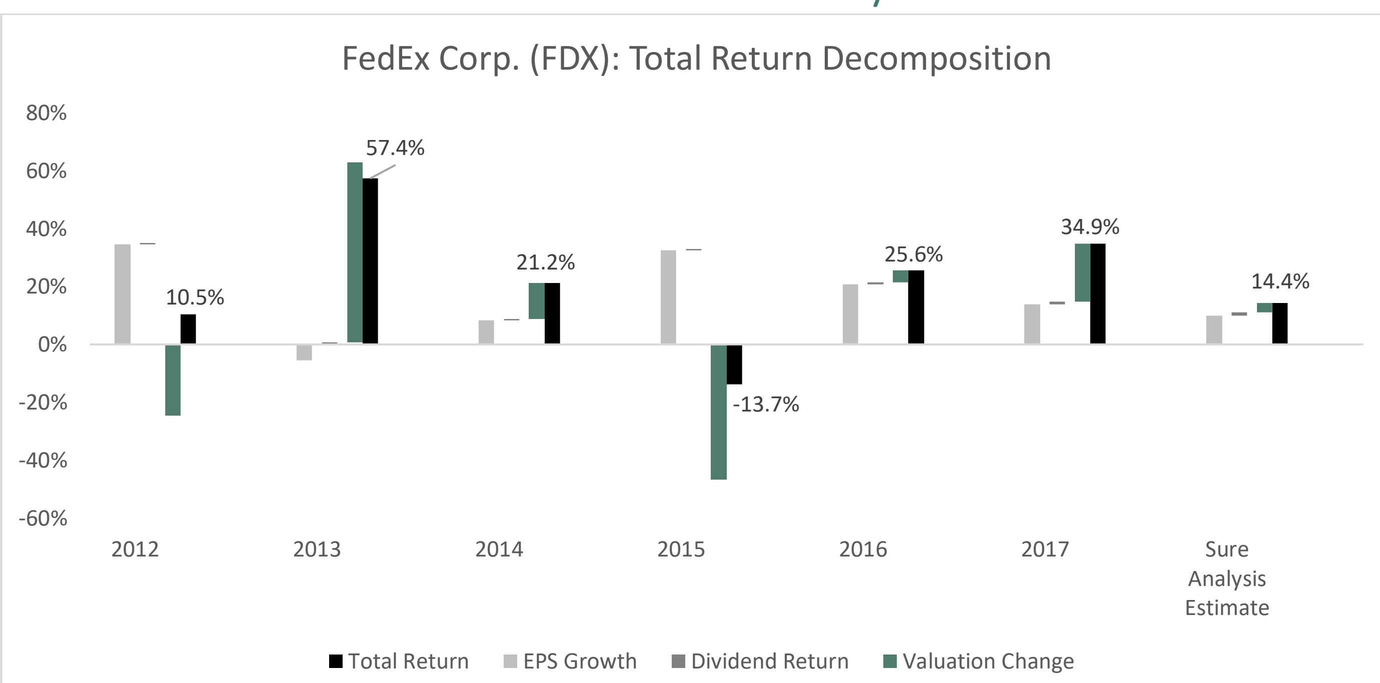
FedEx scores very highly in safety and quality. It is a highly profitable company, with a strong balance sheet. The company generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is very high, and the dividend payout ratio is very low, which means there is plenty of room to continue increasing its dividend at a high rate.

FedEx has a strong competitive advantage. It essentially operates in a duopolistic industry, alongside UPS. These two companies dominate the ground and air package delivery industry. This means FedEx sees a certain level of demand each year, and the ability to generate strong profit margins and cash flow. The only foreseeable competitor to these two going forward is Amazon, and even so, FedEx's economic moat is secure. FedEx invested $5.7 billion in capital expenditures in fiscal 2018, and expects to spend a similar amount in fiscal 2019 to secure its competitive advantages.

Final Thoughts & Recommendation

FedEx is a classic dividend growth stock. Due to the company's high rate of earnings growth, it has the ability to provide double-digit dividend increases to shareholders per year. At the same time, FedEx has a relatively low current yield, which is also fairly typical from dividend growth stocks. The current yield of 1.0% is significantly less than the average S&P 500 dividend yield, which makes FedEx unattractive for investors interested solely in high dividend yields. However, FedEx is a high-quality business with durable competitive advantages and growth potential. The company should be able to generate 10% annual earnings growth, assuming the global economy avoids a major recession over the next five years. Due to its high expected rate of return of 14.4%, FedEx is a buy.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.