



# United Parcel Services (UPS)

Updated October 25<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$108	<b>5 Year CAGR Estimate:</b>	14.3%	<b>Volatility Percentile:</b>	39.0%
<b>Fair Value Price:</b>	\$130	<b>5 Year Growth Estimate:</b>	7.2%	<b>Momentum Percentile:</b>	35.0%
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Growth Percentile:</b>	69.1%
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$184	<b>Valuation Percentile:</b>	76.9%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	80.4%

## Overview & Current Events

United Parcel Services (UPS) is a logistics and package delivery company that offers services including transportation, distribution, ground freight, ocean freight, insurance and financing. Its operations are split into three segments: US Domestic Package, International Package, and Supply Chain & Freight. UPS trades with a market capitalization of \$93 billion. The company was founded in 1907 and is headquartered in Atlanta, GA.

United Parcel Services reported its third quarter earnings results on October 24. The company recorded revenues of \$17.4 billion, 7.9% more than during last year's third quarter. The revenue growth was based on higher transport volumes as well as on higher pricing. United Parcel Services grew its earnings-per-share by 26% to \$1.82. This highly compelling earnings-per-share performance was possible due to a combination of higher revenues, higher margins, lower taxes and a slightly lower share count. United Parcel Services has reiterated its earnings-per-share guidance of \$7.03 to \$7.37 for fiscal 2018. Management has stated that free cash flows would be higher than \$5 billion.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$3.50	\$2.31	\$3.56	\$4.23	\$4.53	\$4.61	\$4.75	\$5.43	\$5.75	\$6.01	<b>\$7.20</b>	<b>\$10.20</b>
<b>DPS</b>	\$1.77	\$1.80	\$1.88	\$2.08	\$2.28	\$2.48	\$2.68	\$2.92	\$3.12	\$3.32	<b>\$3.64</b>	<b>\$5.35</b>
<b>Shares</b>	995	993	987	963	953	924	905	886	868	859	<b>855</b>	<b>815</b>

During the last financial crisis UPS' profitability declined substantially. Earnings-per-share dropped from \$4.11 in 2007 to \$2.31 in 2009. Since then profits have risen relatively consistently. When we look at the 2008-2018 time frame earnings-per-share grew by 7.5% annually, based on the midpoint of UPS' guidance for the current year.

Profit growth during 2018 will be higher than in recent years, which is due to the positive one-time impact of a tax rate decline due to tax legislation changes in late 2017. Even without that impact the growth rate would not be bad, though, as UPS benefits from macro tailwinds and is performing well operationally at the same time. One such tailwind is e-commerce, which leads to growth in the amount of packages that have to be transported across the country. The strong economy drives demand for UPS' services by businesses as well as by consumers, which increase their spending due to higher disposable incomes. With online shopping growth continuing to outpace brick-and-mortar growth in the foreseeable future, UPS should continue to benefit from strong demand for its services.

UPS has pointed to a favorable pricing environment that could positively impact margins going forward. UPS has also reduced its share count in recent years, which allowed for some additional earnings-per-share growth. We expect that UPS will continue to grow its profits per share at a high-single digits pace going forward. UPS did not cut its dividend during the financial crisis and continues to lift it at a solid pace. The most recent hike was relatively high, at 10%.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	18.4	22.6	18.1	16.7	16.7	19.3	21.2	18.5	18.4	18.6	<b>15.0</b>	<b>18.0</b>
<b>Avg. Yld.</b>	2.7%	3.5%	2.9%	2.9%	3.0%	2.8%	2.7%	2.9%	2.9%	3.0%	<b>3.4%</b>	<b>3.0%</b>

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United Parcel Services' valuation has come down significantly over the last couple of months, shares trade at just 15 times this year's expected earnings right now. This is a huge discount compared to how shares were valued during the last couple of years. Its current valuation is the lowest over the last decade. Multiple expansion will likely positively impact United Parcel Services' returns going forward. Investors get a relatively high dividend yield of 3.4% on top of that.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	124%	113%	28%	114%	104%	115%	123%	119%	117%	109%	<b>110%</b>	<b>110%</b>
<b>Debt/A</b>	78.7%	75.9%	76.0%	79.5%	87.8%	82.1%	93.9%	93.5%	98.9%	97.7%	<b>96.0%</b>	<b>93.0%</b>
<b>Int. Cov.</b>	12.4	8.6	15.9	17.6	3.5	18.6	14.1	22.5	14.5	16.8	<b>18.0</b>	<b>18.0</b>
<b>Payout</b>	50.6%	77.9%	52.8%	49.2%	50.3%	53.8%	56.4%	53.8%	54.3%	55.2%	<b>50.6%</b>	<b>52.5%</b>
<b>Std. Dev.</b>	31.6%	36.4%	20.4%	19.3%	11.9%	12.7%	15.8%	15.4%	14.4%	12.1%	<b>14.0%</b>	<b>15.0%</b>

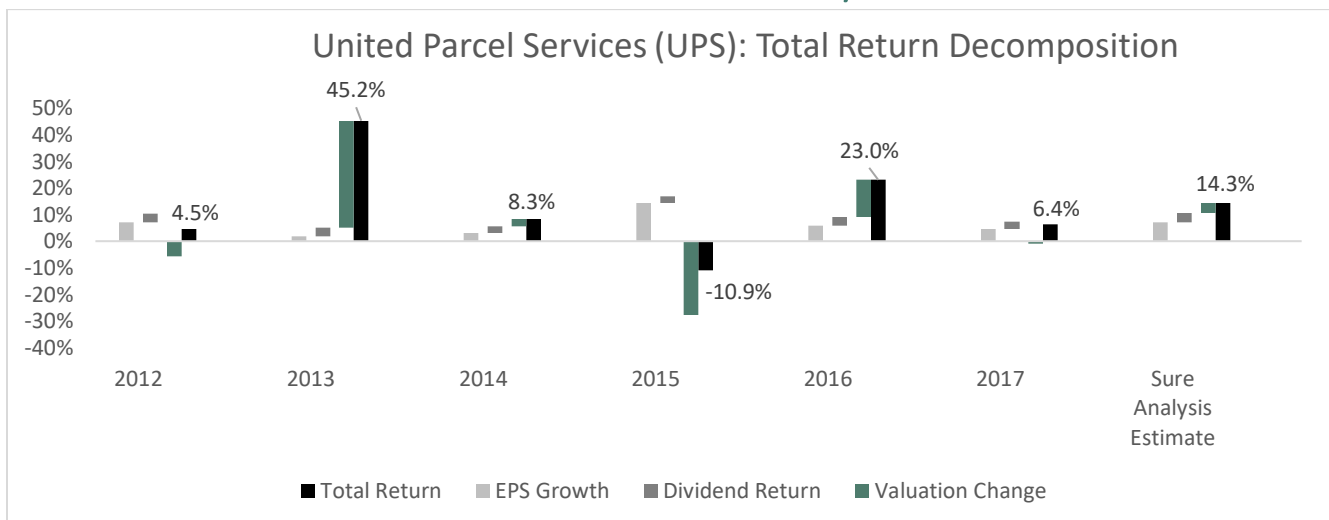
United Parcel Services produces a very high amount of gross profits relative to the assets the company possesses, although we have to note that operating profits and net profits are substantially lower than the company's gross profits. United Parcel Services is highly leveraged in terms of debt to all assets, but since the interest coverage ratio is quite high the debt levels are not problematic at all. Investors do not have to worry about rising interest rates with this stock.

UPS is the biggest logistics/package delivery company in the US. Its top peers include FedEx, DHL Express, and the United States Postal Service. The macro environment is beneficial for the whole industry, thanks to the megatrend online shopping and a strong economy. None of the big players has any interest in a price war, and volumes will continue to rise even if they increase the base pricing for their services. Competitive pressures should therefore remain muted for the foreseeable future. During the last financial crisis profits were roughly cut in half, as lower economic activity and lower consumer spending hurts UPS. A less severe recession will not lead to such an extensive impact on UPS.

## Final Thoughts & Recommendation

United Parcel Services is a key player in a company that benefits from the megatrend online shopping. Its earnings will likely continue to grow at a compelling pace going forward, and shareholders get a meaningful dividend yield on top of that. The low valuation should also lead to some valuation expansion tailwinds, which is why the total return outlook is positive for United Parcel Services. We rate UPS a buy at its current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	51486	45297	49545	53105	54127	55438	58232	58363	60906	65872
<b>Gross Profit</b>	39608	36478	9514	10241	5593	11311	9506	12304	10090	12568
<b>Gross Margin</b>	76.9%	80.5%	19.2%	19.3%	10.3%	20.4%	16.3%	21.1%	16.6%	19.1%
<b>SG&amp;A Exp.</b>	32412	30930								
<b>D&amp;A Exp.</b>	1814	1747	1792	1782	1858	1867	1923	2084	2224	2282
<b>Operating Profit</b>	5382	3801	5641	6080	1343	7034	4968	7668	5467	7529
<b>Op. Margin</b>	10.5%	8.4%	11.4%	11.4%	2.5%	12.7%	8.5%	13.1%	9.0%	11.4%
<b>Net Profit</b>	3003	2152	3338	3804	807	4372	3032	4844	3431	4910
<b>Net Margin</b>	5.8%	4.8%	6.7%	7.2%	1.5%	7.9%	5.2%	8.3%	5.6%	7.5%
<b>Free Cash Flow</b>	5790	3683	2446	5068	5063	5239	3398	5051	3508	-3748
<b>Income Tax</b>	2012	1214	1952	1972	167	2302	1605	2498	1705	2238

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	31879	31883	33597	34701	38863	36212	35440	38311	40377	45403
<b>Cash &amp; Equivalents</b>	507	1542	3370	3034	7327	4665	2291	2730	3476	3320
<b>Acc. Receivable</b>	5547	5369	5627	6246	6111	6502	6661	7134	7695	8773
<b>Inventories</b>	N/A	N/A	N/A	345	393	403	344	308	342	404
<b>Goodwill &amp; Int.</b>	2497	2685	2680	2686	2776	2965	3031	4968	5515	5836
<b>Total Liabilities</b>	25099	24187	25550	27593	34130	29724	33282	35820	39948	44373
<b>Accounts Payable</b>	1855	1766	1974	2300	2278	2478	2754	2587	3042	3872
<b>Long-Term Debt</b>	9871	9521	10846	11128	12870	10872	10779	14334	16075	23789
<b>Total Equity</b>	6780	7630	7979	7035	4653	6474	2141	2470	405	1000
<b>D/E Ratio</b>	1.46	1.25	1.36	1.58	2.77	1.68	5.03	5.80	39.69	23.79

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	8.5%	6.8%	10.2%	11.1%	2.2%	11.6%	8.5%	13.1%	8.7%	11.4%
<b>Return on Equity</b>	31.7%	29.9%	42.8%	50.7%	13.8%	78.6%	70.4%	210%	239%	699%
<b>ROIC</b>	15.1%	12.7%	18.5%	20.5%	4.5%	25.0%	20.0%	32.6%	20.6%	23.8%
<b>Shares Out.</b>	995	993	987	963	953	924	905	886	868	859
<b>Revenue/Share</b>	50.38	45.12	49.40	53.59	55.86	58.48	63.02	64.42	68.67	75.28
<b>FCF/Share</b>	5.67	3.67	2.44	5.11	5.23	5.53	3.68	5.58	3.95	-4.28

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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