Ryder System, Inc. (R)

Updated November 18th, 2018 by Eli Inkrot

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	15.0%	**Volatility Percentile:**	79.2%
Fair Value Price:	$81	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	5.5%
% Fair Value:	68%	**5 Year Valuation Multiple Estimate:**	8.1%	**Growth Percentile:**	10.7%
Dividend Yield:	3.9%	**5 Year Price Target**	$94	**Valuation Percentile:**	95.3%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	89.2%

Overview & Current Events

In 1933 Jim Ryder made a $35 down payment on one truck. Today that has transformed into a $2.9 billion commercial transportation, logistics and supply chain management solutions company with 240,000+ vehicles, 50 million square feet of warehouse space, and 36,000 employees. Ryder is on pace to generate $8 billion in revenue this year and earn ~$300 million. The business is divided into three segments: Fleet Management (FMS), Dedicated Transportation (DTS) and Supply Chain Solutions (SCS).

On October 26th, 2018 Ryder announced Q3 2018 earnings. For the quarter revenue came in at $2.16 billion, a 17% increase compared to the year ago period, with double-digit increases – benefiting from a favorable freight environment – coming for all three segments. Comparable EPS (non-GAAP) was $1.64, a 22% increase versus the $1.34 mark of Q3 2017, driven by a lower tax rate from Tax Reform and improved operating performance.

The company also narrowed its Comparable EPS 2018 forecast range to $5.72 to $5.82 (from $5.62 to $5.82).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.49	$1.59	$2.23	$3.49	$4.04	$4.87	$5.59	$6.13	$5.41	$4.53	***$5.77***	***$6.70***
DPS	$0.92	$0.96	$1.04	$1.12	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	***$2.12***	***$2.68***
Shares	55.7	53.4	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0	***53.0***	***53.0***

Over the past 10 years Ryder System has grown earnings-per-share by an average compound rate of 2.5% per annum. Additionally, there have been two instances – 2008 / 2009 and 2015 / 2017 – where the company reported a material decline in per share earnings (~65% and ~26% respectively). For our 2018 earnings estimate we are using the midpoint of the company's guidance (with three quarters in the books). Over the intermediate-term our estimate for growth is in-line with the business' historical average, but more subdued than the typical analyst.

Ryder faces challenges from increasing costs, more stringent regulation, and disruptive technologies. However, there are also opportunities as the company offers solutions for driver and labor shortages in the industry for the short to intermediate-term, and Ryder can play a key role in the ongoing shift toward e-commerce and asset sharing / autonomous vehicles in the long-term.

The company paid the same $0.15 quarterly dividend from 1989 through 2004, but began increasing it in 2005. Since 2008 this payment has increased by 8.7% per annum (with the payout ratio moving from 20% to 37%). Given this payout expansion, we anticipate the dividend growth rate to slow a bit, but still add meaningfully to shareholder returns (especially given the current, above average yield).

On the share front we have assumed no change, a nod to the company's "anti-dilutive" stance on share repurchases.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.8	21.3	18.8	14.3	11.4	12.5	15.1	13.7	12.1	16.6	***9.5***	***14.0***
Avg. Yld.	1.6%	2.8%	2.5%	2.2%	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	***3.9%***	***2.9%***

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Over the past decade, excluding 2009, Ryder System has traded hands with an average P/E ratio of about 14. We believe this is a fair multiple, implying a good amount of potential upside, if the company can executive and continue to grow. The share price is down ~35% this year, while earnings are anticipated to be meaningfully higher, a contradiction that has resulted in a current P/E ratio in the single digits.

Moreover, the significantly lower share price has also resulted in a dividend yield of 3.9% with the propensity to grow over time. These two components – a low valuation and an above average dividend yield – coupled with a bit of earnings growth could lead to very solid results.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	20.5%	60.4%	46.6%	32.1%	29.7%	26.7%	25.4%	25.4%	31.4%	39.7%	***36.7%***	***40.0%***

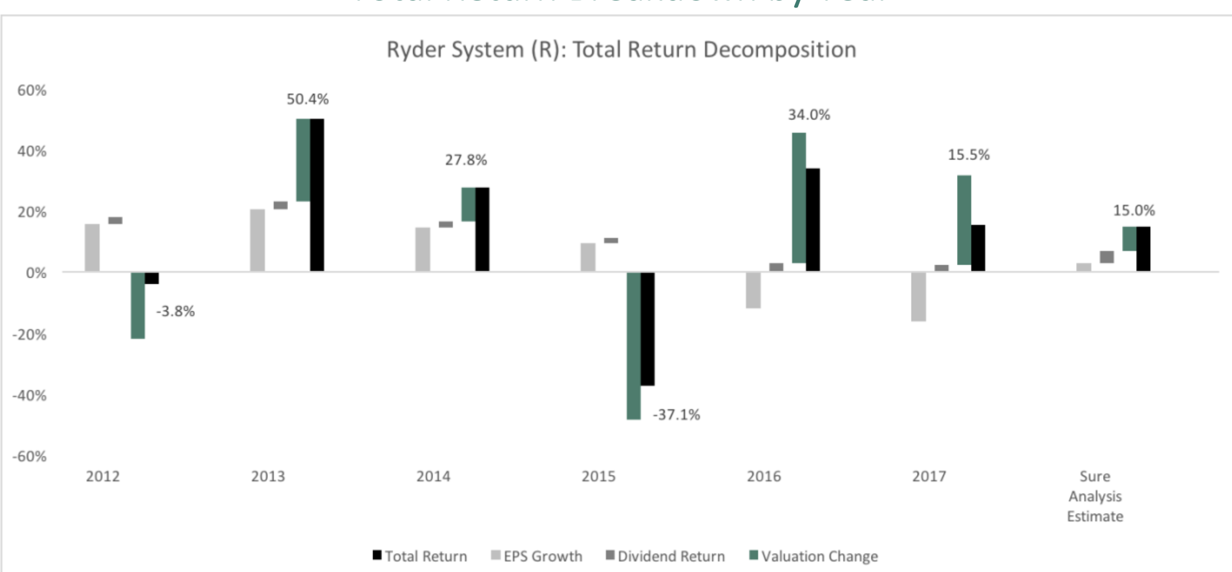
Ryder System's payout ratio has fluctuated a fair amount in the last decade, as earnings have trended mostly upward with a few hiccups along the way. In "good times" the company is paying out about a third of its profits in the form of a cash dividend. In lesser times this ratio can rise significantly as the dividend is held steady or increased.

Of particular note to Ryder's safety is the company's interest payment, which totaled $140 million last year against profits of $241 million. The company has suggested that it is comfortable with this type of leverage – targeting a debt-to-equity ratio of 200% to 250%. However, this could mean that the company would have to take dilutive action if business conditions temporarily deteriorate.

Final Thoughts & Recommendation

Overall Ryder System offers an interesting value proposition thanks to its low 9.5 P/E and 3.9% dividend yield. Moreover, the company is well situated to take advantage of the long-term trends in the transportation industry. We do caution that the company has a substantial debt load and corresponding interest payments. If Ryder can continue to grow, the positives should easily outweigh the negatives. However, if we see a prolonged period of difficulty in the industry the current capital structure could handcuff future growth and indeed become dilutive for shareholders (either via increasingly costly debt or share issuance). We rate Ryder as a buy at current prices for risk averse investors.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	5999	4887	5136	6051	6257	6419	6639	6572	6787	7330
Gross Profit	2885	2393	1070	1245	1249	1320	1386	1485	1501	1464
Gross Margin	48.1%	49.0%	20.8%	20.6%	20.0%	20.6%	20.9%	22.6%	22.1%	20.0%
SG&A Exp.	1348	1230	655	771	764	791	914	823	805	872
D&A Exp.	851	923	875	912	989	1040	1094	1175	1218	1267
Operating Profit	740	282	280	344	351	397	356	546	583	476
Operating Margin	12.3%	5.8%	5.5%	5.7%	5.6%	6.2%	5.4%	8.3%	8.6%	6.5%
Net Profit	200	62	118	170	210	238	218	305	262	791
Net Margin	3.3%	1.3%	2.3%	2.8%	3.4%	3.7%	3.3%	4.6%	3.9%	10.8%
Free Cash Flow	25	307	-51	-657	-999	-871	-876	-1226	-304	-312
Income Tax	152	54	62	108	102	126	118	163	142	-477

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6690	6260	6652	7618	8319	9104	9851	10953	10902	11452
Cash & Equivalents	120	99	213	105	66	62	50	61	59	78
Accounts Receivable	N/A	493	535	730	747	760	779	799	816	981
Inventories	48	50	59	66	64	64	66	64	70	74
Goodwill & Int. Ass.	235	256	428	462	465	456	460	444	435	438
Total Liabilities	5344	4833	5248	6300	6851	7207	8032	8965	8850	8617
Accounts Payable	295	263	294	392	399	475	561	502	445	599
Long-Term Debt	2863	2498	2747	3382	3821	4189	4731	5503	5391	5410
Shareholder's Equity	1345	1427	1404	1318	1467	1897	1819	1987	2052	2835
D/E Ratio	2.13	1.75	1.96	2.57	2.60	2.21	2.60	2.77	2.63	1.91

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.0%	1.0%	1.8%	2.4%	2.6%	2.7%	2.3%	2.9%	2.4%	7.1%
Return on Equity	12.4%	4.5%	8.3%	12.5%	15.1%	14.1%	11.8%	16.0%	13.0%	32.4%
ROIC	4.5%	1.5%	2.9%	3.8%	4.2%	4.2%	3.5%	4.3%	3.5%	10.1%
Shares Out.	55.7	53.4	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0
Revenue/Share	106.10	88.71	99.00	118.92	123.31	123.28	125.17	123.39	127.19	138.33
FCF/Share	0.44	5.58	-0.99	-12.92	-19.69	-16.72	-16.52	-23.02	-5.70	-5.90

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