FedEx Corp. (FDX)

Updated December 21st, 2018 by Bob Ciura

Key Metrics

Current Price:	$168	**5 Year CAGR Estimate:**	17.2%	**Volatility Percentile:**	57.1%
Fair Value Price:	$224	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	10.2%
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	7.6%	**Growth Percentile:**	72.2%
Dividend Yield:	1.6%	**5 Year Price Target**	$330	**Valuation Percentile:**	83.5%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	79.2%

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 12/19/18 FedEx reported financial results for its fiscal 2019 second quarter. Revenue of $17.8 billion rose 9.2% from the same quarter last year, and beat analyst expectations by $50 million. Adjusted earnings-per-share of $4.03 beat expectations by $0.09 per share, and increased 27% year-over-year. Despite the strong performance last quarter, FedEx shares declined 10% the morning of the earnings release, due to the company's significant guidance cut for the full fiscal year. For fiscal 2019, FedEx now expects adjusted earnings-per-share of $15.50 to $16.60, versus prior guidance of $17.20 to $17.80. The company blamed slowing economic growth in various parts of the world, as well as the impact of tariffs and geopolitical concerns. We have updated our models as a result.

Growth on a Per-Share Basis

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	***$16.05***	***$23.58***
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***
Shares	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). 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. Still, FedEx's reduced earnings guidance is a possible signal of a global economic slowdown. As a result, we have reduced our expectations for the company's earnings growth. We expect 8% annual earnings growth through 2024. Dividends are expected to rise at 10% in 2019 and each year through 2024, due to the low payout ratio.

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	***9.7***	***14.0***
Avg. Yld.	0.4%	0.7%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	***1.6%***	***1.3%***

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 9.7; this is below the 10-year average price-to-earnings ratio of 16.7. In light of the recent earnings forecast reduction, we have reduced our fair value estimate to a price-to-earnings ratio of 14. Still, the stock appears to be significantly undervalued. Expansion of the stock valuation could boost annual returns of 7.6% over the next five years.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	11.7%	11.7%	9.8%	7.9%	9.0%	8.9%	8.9%	9.3%	13.0%	13.1%	***16.2%***	***17.8%***

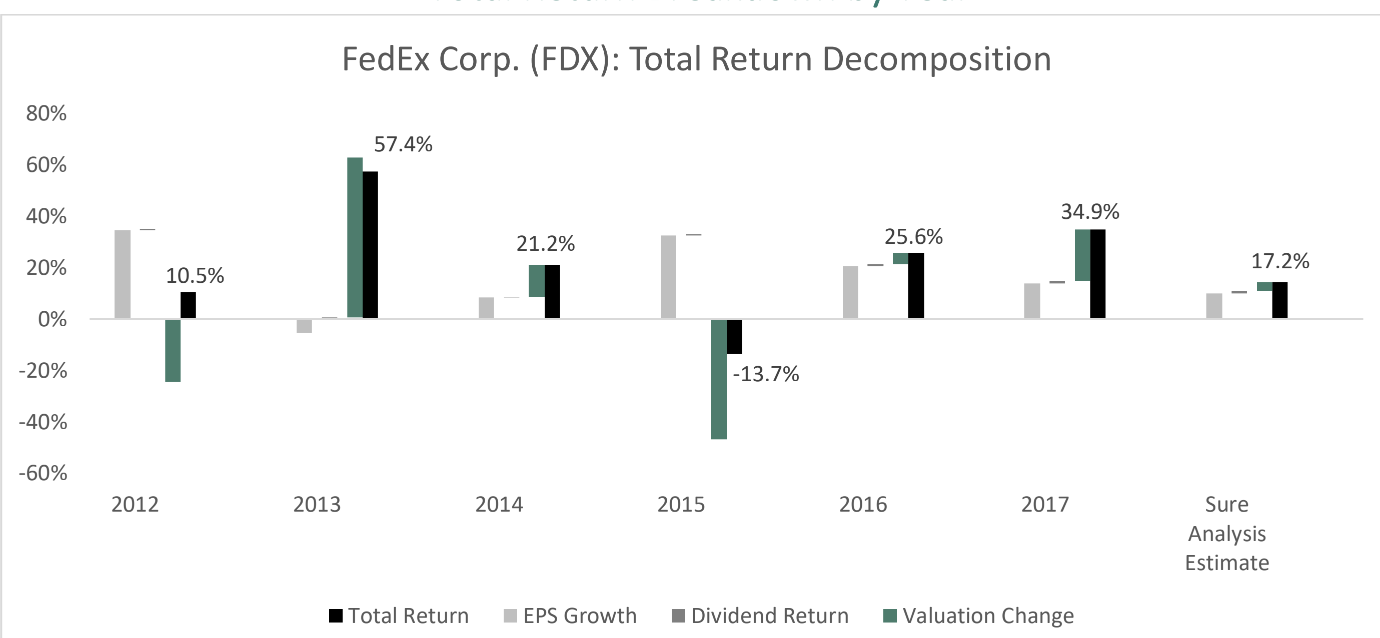
FedEx scores very highly in safety and quality. It is a highly profitable company, with a strong balance sheet. The company generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is very high, and the dividend 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. However, investors should note that FedEx is not a recession-resistant business. While the company should remain profitable in a downturn, its revenue and earnings are likely to decline in a recession.

Final Thoughts & Recommendation

FedEx is a strong 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 each 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 1.6% is significantly lower 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 at least 8% 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 17.2%, FedEx earns a buy recommendation from Sure Dividend at current prices.

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	35497	34734	39304	42680	44287	45567	47453	50365	60319	65450
Gross Profit	29788	22826	7789	8710	9398	9757	10748	11826	13765	14690
Gross Margin	83.9%	65.7%	19.8%	20.4%	21.2%	21.4%	22.6%	23.5%	22.8%	22.4%
SG&A Exp.	20730	14027			1368	15	2190	1498	24	10
D&A Exp.	1975	1958	1973	2113	2386	2587	2611	2631	2995	3095
Operating Profit	7083	6841	2467	3320	5094	3815	2143	3077	5037	5250
Op. Margin	20.0%	19.7%	6.3%	7.8%	11.5%	8.4%	4.5%	6.1%	8.4%	8.0%
Net Profit	98	1184	1452	2032	2716	2324	1050	1820	2997	4572
Net Margin	0.3%	3.4%	3.7%	4.8%	6.1%	5.1%	2.2%	3.6%	5.0%	7.0%
Free Cash Flow	294	322	607	828	1313	731	1019	890	-186	-989
Income Tax	579	710	813	1109	1622	1334	577	920	1582	-219

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	24244	24902	27385	29903	33567	33070	36531	45959	48552	52330
Cash & Equivalents	2292	1952	2328	2843	4917	2908	3763	3534	3969	3265
Acc. Receivable	N/A	N/A	4763	4704	5044	5460	5719	7252	7599	8481
Inventories	367	389	437	440	457	463	498	496	514	525
Goodwill & Int.	2229	2200	2326	2387	2755	2790	4017	7755	7683	7453
Total Liabilities	10618	11091	12165	15176	16169	17793	21538	32175	32479	32914
Accounts Payable	1372	1522	1702	1613	1879	1971	2066	2944	2752	2977
Long-Term Debt	2583	1930	1667	1667	2990	4737	7268	13762	14931	16585
Total Equity	13626	13811	15220	14727	17398	15277	14993	13784	16073	19416
D/E Ratio	0.19	0.14	0.11	0.11	0.17	0.31	0.48	1.00	0.93	0.85

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.4%	4.8%	5.6%	7.1%	8.6%	7.0%	3.0%	4.4%	6.3%	9.1%
Return on Equity	0.7%	8.6%	10.0%	13.6%	16.9%	14.2%	6.9%	12.6%	20.1%	25.8%
ROIC	0.6%	7.4%	8.9%	12.2%	14.8%	11.5%	5.0%	7.3%	10.2%	13.6%
Shares Out.	312.0	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0
Revenue/Share	113.77	110.62	123.99	134.64	139.71	146.99	165.34	180.52	223.40	240.63
FCF/Share	0.94	1.03	1.91	2.61	4.14	2.36	3.55	3.19	-0.69	-3.64

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