Ryder System, Inc. (R)

Updated February 18th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	12.3%	**Volatility Percentile:**	81.2%
Fair Value Price:	$85	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	22.6%
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.9%	**Growth Percentile:**	11.9%
Dividend Yield:	3.4%	**5 Year Price Target**	$99	**Valuation Percentile:**	91.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	76.1%

Overview & Current Events

In 1933, Jim Ryder made a $35 down payment on one truck. Today that has transformed into a $3.4 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. The business is divided into three segments – Fleet Management (FMS), Dedicated Transportation (DTS) and Supply Chain Solutions (SCS) - providing commercial truck rental, truck leasing, used trucks for sale, and last mile delivery services. Ryder generates over $8 billion in annual revenue.

On February 14th, 2019 Ryder released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter, Ryder recorded revenue of $2.3 billion, up 17% compared to the same quarter in 2017, and comparable (non-GAAP) earnings-per-share of $1.82, up 33% thanks to a lower tax rate and improved operating performance. For the year, revenue came in at $8.4 billion, a 15% increase compared to 2017, and comparable (non-GAAP) earnings-per-share of $5.79, up 28% and towards the high end of the company's previous guidance of $5.72 to $5.82.

Ryder also provided a 2019 earnings forecast. The company anticipates comparable 2019 earnings-per-share to be in the $6.00 to $6.30 range, representing a 4% to 9% year-over-year increase. However, Ryder is adopting a new lease accounting standard starting this year to better align revenue recognition with maintenance costs. Absent this change, the company would anticipate comparable 2019 earnings-per-share to be in the $6.20 to $6.50 range.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.59	$2.23	$3.49	$4.04	$4.87	$5.59	$6.13	$5.41	$4.53	$5.79	***$6.25***	***$7.25***
DPS	$0.96	$1.04	$1.12	$1.20	$1.30	$1.42	$1.56	$1.70	$1.80	$2.12	***$2.20***	***$2.90***
Shares	53.4	51.2	51.1	51.4	53.3	53.0	53.5	53.5	53.0	52.7	***52.7***	***52.7***

The above information paints a rosier growth picture than might be warranted for the company. If you look back to 2008, when the company was earning $4.49 per share, Ryder has grown earnings-per-share by an average compound rate of roughly 2.6% per annum. The company has told investors to anticipate solid growth in the coming year, but thereafter our intermediate-term estimate is more in-line with the business' historical average.

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. Further, Ryder recently announced a new customer agreement for 1,000 commercial electric trucks – the largest deal of its kind in the U.S., and a step in the direction of the future.

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.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.3	18.8	14.3	11.4	12.5	15.1	13.7	12.1	16.6	8.3	***10.2***	***13.6***
Avg. Yld.	2.8%	2.5%	2.2%	2.6%	2.1%	1.7%	1.9%	2.6%	2.4%	4.4%	***3.4%***	***2.9%***

Since 2010 shares of Ryder System have traded hands with an average P/E ratio of 13.6 times earnings, with a range from 8 to 19 times earnings. We believe this is a fair multiple, implying a good amount of potential upside, if the company can executive and continue to grow. Ryder's share price has bounced about significantly in the last few years, increasing nearly 50% in the 2015 to 2017 stretch before falling over 40% in 2018. The share price has since rebounded, up 33% in 2019 already, but shares are still trading at a historically low multiple.

In addition, the 3.4% dividend yield has the propensity to keep growing over time. These two components – a low valuation and an above average dividend yield – coupled with a bit of earnings growth could lead to solid investment returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60%	47%	32%	30%	27%	25%	25%	31%	40%	37%	***35%***	***40%***

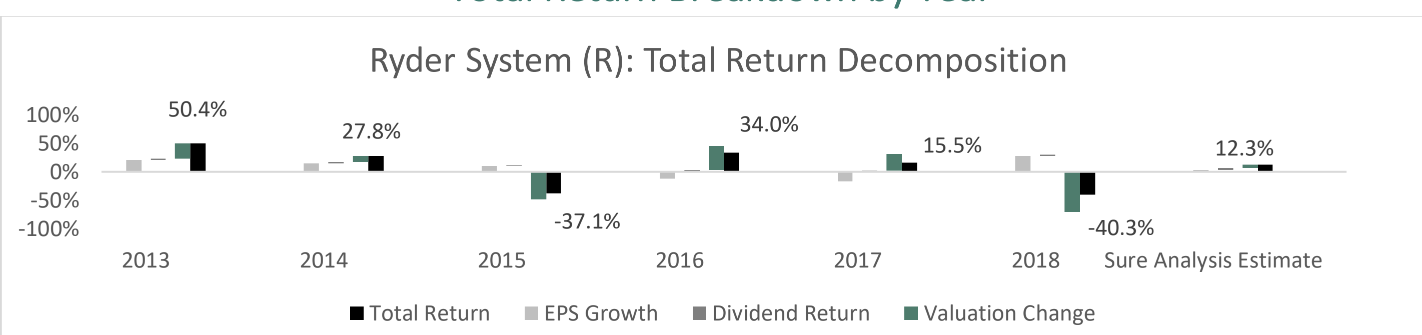
There have been two instances – 2008 / 2009 and 2015 / 2017 – where the company reported a material decline in per share earnings (~65% and ~26% respectively). While this comes with a cyclical industry, we are encouraged by Ryder's ability to rebound. Moreover, the dividend has been solid along the way. 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. We believe this is a fair course of action and do not anticipate a significant uptick in the company's "normal" payout ratio.

Of particular note to Ryder's safety is the company's interest expense, which totaled $179 million last year against comparable profits of just over $300 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

Shares of Ryder are up about 16% since our last update, while earnings came in more or less as anticipated. Overall Ryder System offers an interesting value proposition thanks to its low 10.2 P/E and 3.4% dividend yield (albeit not as attractive as it was a few months ago). Due to high expected returns, the company earns a buy recommendation, although only for investors with above-average risk tolerances.

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.