FedEx Corporation (FDX)

Updated March 19th, 2019 by Kay Ng

Key Metrics

Current Price:	$181	**5 Year CAGR Estimate:**	11.3%	**Volatility Percentile:**	70.7%
Fair Value Price:	$202	**5 Year Growth Estimate:**	7.8%	**Momentum Percentile:**	7.4%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Growth Percentile:**	75.2%
Dividend Yield:	1.4%	**5 Year Price Target**	$293	**Valuation Percentile:**	75.0%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	72.1%

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971 and has a market cap of $47.4 billion. The company offers a variety of services including transportation, e-commerce, and business services. It operates four core segments: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services. FedEx provides domestic and international shipping for package delivery and freight. It also provides sales, marketing, information technology, communications, customer service, technical support, billing, and collection services.

On March 19, FedEx reported financial results for fiscal 2019 third quarter. Revenue of $17 billion rose 3% from the Q3 last year. Adjusted earnings-per-share of $3.03 declined by 18.5% compared to fiscal 2018 Q3. After the earnings release, in after-hours trading, FedEx stock declined by 5.6%.

Recently, there were some executive role changes. In March, Don Colleran became the president and CEO of FedEx Express. He has been with the company for nearly 30 years and has held a number of executive positions. With his global experience, Colleran is a natural fit to take the top role at one of FedEx's core segments. In February, Raj Subramaniam was appointed president and COO. He has been with the company for more than 27 years and has held various executive level positions. Subramaniam also serves as the co-president and co-CEO of FedEx Services.

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	***$15.50***	***$22.56***
DPS	$0.44	$0.44	$0.48	$0.52	$0.56	$0.60	$0.80	$1.00	$1.60	$2.00	***$2.60***	***$4.18***
Shares	312.0	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	***268.6***	***252.4***

FedEx has lowered adjusted earnings-per-share guidance last quarter and this quarter. The latest adjusted earnings-per-share guidance for fiscal 2019 is $15.10 to $15.90 (down 11.4% from fiscal Q1 2019's guidance of $17.20 to $17.80). The main causes are slowing economic growth in various parts of the world, the impact of tariffs, and geopolitical concerns. We have updated our estimates as a result. 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 the last recession, FedEx's adjusted earnings-per-share declined about 44% over a two-year period. Seeing the market has been in a roughly 10-year upward trend, it's possible that a downturn will happen again, followed by strong growth. For example, FedEx's adjusted earnings-per-share increased by about 19% per year from fiscal 2010-2018.

To account for harsh economic times that could very well occur, we prudently estimate a five-year earnings growth rate of 7.8%. However, dividends can rise by about 10% per year thanks to having a low payout ratio.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.5	20.6	17.9	13.0	15.0	18.5	18.4	14.4	14.6	15.2	***11.7***	***13.0***
Avg. Yld.	0.7%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	***1.4%***	***1.4%***

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Because of its sensitivity to economic growth (and decline), historically, FedEx has traded for a wide range of price-to-earnings ratios. Based on fiscal 2019 earnings guidance, FedEx stock currently trades at a price-to-earnings ratio of 11.7. This is below the 10-year average price-to-earnings ratio of 16.5. In light of the earnings forecast reduction and a downturn possibility, we have cut our fair value estimate to a price-to-earnings ratio of 13. Still, the stock appears to be moderately undervalued. Expansion of the stock valuation could add 2.1% annually to returns over the next five years.

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%	13.1%	***16.8%***	***18.5%***

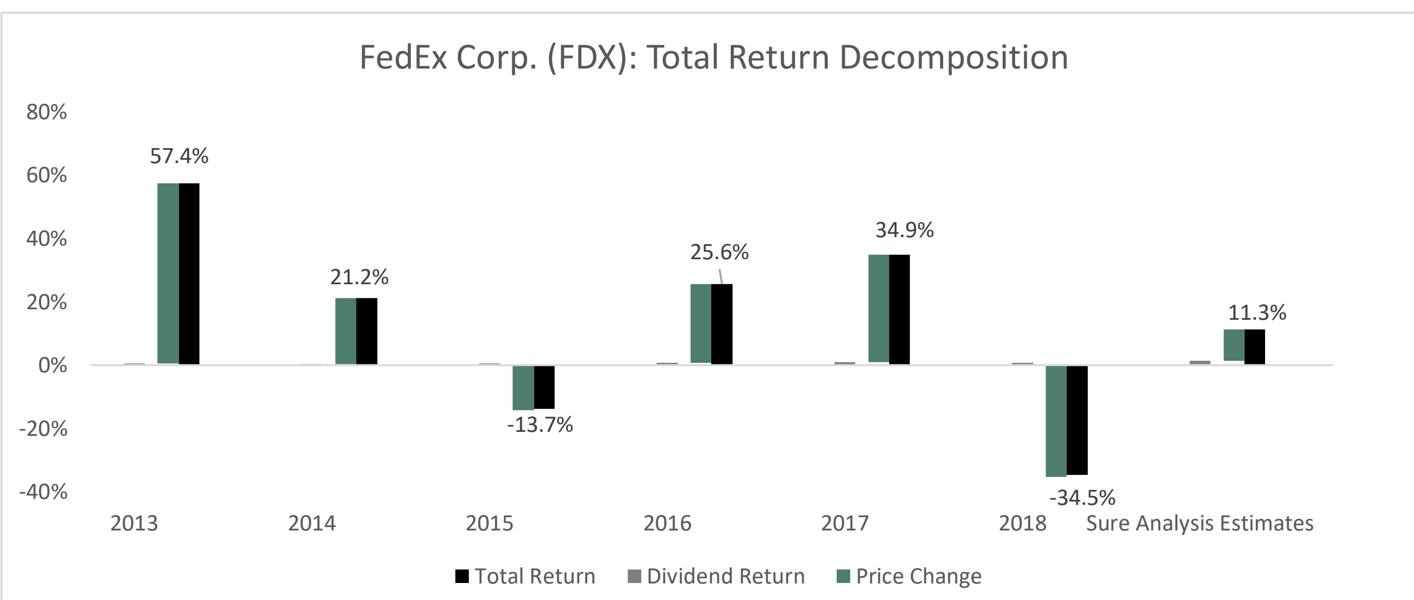
FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is very high, and the dividend payout ratio is very low, so there is a high margin of safety here.

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. Amazon performing its own fulfillments will be of little impact to FedEx because Amazon contributed less than 1.3% of FedEx's revenue in 2018. So, FedEx's economic moat is intact. FedEx estimates it will invest $5.6 billion in capital expenditures in fiscal 2019, which is similar to the amount spent in fiscal 2018 to maintain its competitive advantages. However, 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. However, the dividend is unlikely to be cut even in a severe recession thanks to the low payout ratio.

Final Thoughts & Recommendation

FedEx will grow its dividend over time but will experience lower profitability during harsh economic times. The current yield of 1.4% is also below average. However, FedEx is a quality business with durable competitive advantages and growth potential. We forecast 7.8% annual earnings growth. Due to an expected return of 11.3% per year, FedEx currently earns a buy recommendation from Sure Dividend.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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.