FedEx Corporation (FDX)

Updated June 26th, 2019 by Kay Ng

Key Metrics

Current Price:	$160	**5 Year CAGR Estimate:**	13.4%	**Volatility Percentile:**	73.5%
Fair Value Price:	$202	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	8.5%
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Growth Percentile:**	66.6%
Dividend Yield:	1.6%	**5 Year Price Target**	$283	**Valuation Percentile:**	84.7%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	77.0%

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971 and has a market cap of $41.7 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 June 25, FedEx reported financial results for fiscal fourth quarter and full year results. For the quarter, revenue increased by 2.8% year over year. Investors should not be alarmed by the diluted loss per share of -$7.56, which was due to mark-to-market retirement plan accounting adjustments that resulted in a non-cash expense of $3.7 billion (equating to $11.33 per share) and had nothing to do with the health of the business operations. That said, on an adjusted basis, earnings-per-share did fall 15.2% to $5.01 compared to fiscal 2019 Q4.

For the full year, revenue climbed 6.5% to $69.7 billion. Diluted earnings-per-share was low at $2.03 due to the mark-to-market retirement plan accounting adjustments that resulted in an expense of $3.3 billion (equating to $11.22 per share). Adjusted earnings-per-share climbed 1.4% to $15.52.

At the end of May, FedEx announced that FedEx Ground will deliver seven days per week all year round for the majority of the U.S. population starting in January 2020. In June, FedEx also formed an alliance with Dollar General (DG) to offer convenient access to FedEx drop-off and pickup services at thousands of DG's stores. This especially targets customers who live in rural areas. Both efforts can lead to increased sales.

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	***$15.52***	***$21.78***
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***

In the near term, FedEx expects continued TNT Express integration costs, including $350 million that will be incurred in fiscal 2020 and affect diluted earnings. Recall that TNT Express was a Dutch parcel delivery company that FedEx bought in 2016. Mark-to-market retirement plan accounting adjustments will also affect diluted earnings in fiscal 2020.

FedEx forecasts that continued weakness in global trade and industrial production will negatively impact the company performance in fiscal 2020. As a result, we're making a slight adjustment to our five-year growth estimate – lowering it from 7.8% to 7%. Because of the weak outlook, management has decided to keep the same dividend for five consecutive quarters. However, the company can still increase dividends by about 10% per year through 2024 because of its low payout ratio and especially if the global outlook improves.

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

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happen again, followed by strong growth. For example, FedEx's adjusted earnings-per-share increased by about 19% per year from fiscal 2010-2018.

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	***10.3***	***13.0***
Avg. Yld.	0.7%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	***1.6%***	***1.5%***

Because of its sensitivity to economic growth (and decline), historically, FedEx has traded for a wide range of P/E ratios. FedEx stock trades at a fiscal 2019 price-to-earnings ratio of 10.3, which is below the 10-year average price-to-earnings ratio of 16.5. Because of the weak outlook, we expect a lower fair price-to-earnings ratio of 13. Still, the stock appears to be undervalued. Expansion of the stock valuation could add 4.8% 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%***	***19.2%***

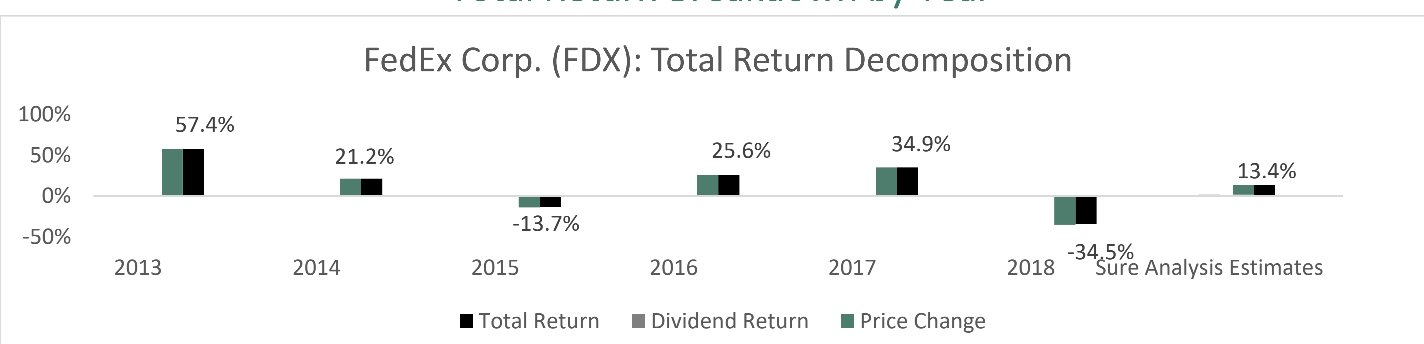
FedEx scores high in safety and quality. It is consistently profitable and has a strong balance sheet. It generates more than enough cash flow to satisfy its debt obligations, invest in growth, and return cash to shareholders. The interest coverage ratio is very high, and the dividend payout ratio is 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 United Parcel (UPS). These two companies dominate the ground and air package delivery industry. This means FedEx gets a certain level of demand each year and is able 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 to invest $5.9 billion in capital expenditures in fiscal 2020 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 1.6% is also below average. However, FedEx is a quality business with durable competitive advantages and growth potential. We forecast 7% annual earnings growth and a boost of 4.8% per year from the stock price reverting to the mean. Due to an expected return of 13.4% 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										
Gross Profit										
Gross Margin										
SG&A Exp.										
D&A Exp.										
Operating Profit										
Operating Margin										
Net Profit										
Net Margin										
Free Cash Flow										
Income Tax										

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets										
Cash & Equivalents										
Accounts Receivable										
Inventories										
Goodwill & Int. Ass.										
Total Liabilities										
Accounts Payable										
Long-Term Debt										
Shareholder's Equity										
D/E Ratio										

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets										
Return on Equity										
ROIC										
Shares Out.										
Revenue/Share										
FCF/Share										

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