FedEx Corporation (FDX)

Updated December 18th, 2019 by Kay Ng

Key Metrics

Current Price:	$147	**5 Year CAGR Estimate:**	10.9%	**Market Cap:**	$38.5B
Fair Value Price:	$163	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/06/19
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	01/02/20
Dividend Yield:	1.8%	**5 Year Price Target**	$229	**Years Of Dividend Growth:**	15
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	6.1%

Overview & Current Events

FedEx Corp. is a transportation and shipping company. It was founded in 1971. 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 12/17/19, FedEx reported financial results for the fiscal Q2. For the quarter, revenue fell 3% to $17.3 billion against the comparable quarter a year ago. The adjusted operating margin of 3.9% saw a great compression of 3.6%. This led to net income falling 39% to $660 million and adjusted earnings-per-share falling 38% to $2.51. Fedex blamed the horrible operating results on "weak global economic conditions, increased FedEx Ground costs from expanded service offerings, the loss of business from a large customer, a continuing mix shift to lower-yielding services and a more competitive pricing environment. In addition, the later timing of the Thanksgiving holiday resulted in the shifting of Cyber Week into December, which negatively impacted the quarter's results" that ended on 11/30/19.

FedEx expects TNT Express integration costs and mark-to-market (MTM) retirement plan accounting adjustments will reduce earnings in fiscal 2020. Recall that TNT Express was a Dutch parcel delivery company that FedEx bought in 2016. Due to multiple headwinds, FedEx reduced its fiscal 2020 earnings-per-share estimation to $10.25 to $11.50 (before the year-end MTM retirement plan accounting adjustment and excluding TNT Express integration expenses). This leads to our updated earnings estimate of $10.88 per share for fiscal 2020 using the mid-point of the company's guidance. In October, FedEx announced the expansion of FedEx Freight Direct to more than 80% of the U.S. population. The new e-commerce solution delivers bulky items, including furniture, TVs, and exercise equipment. In the same month, FedEx also launched a pilot program in Virginia to test out wing drone deliveries to homes. The company's willingness to try new solutions should drive growth down the road.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.76	$4.90	$6.59	$6.23	$6.75	$8.95	$10.80	$12.30	$15.31	$15.52	***$10.88***	***$15.26***
DPS	$0.44	$0.48	$0.52	$0.56	$0.60	$0.80	$1.00	$1.60	$2.00	$2.60	***$2.60***	***$4.19***
Shares[1]	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9	***260.9***	***248.1***

We've previously lowered our long-term guidance on FedEx. So, we're maintaining our five-year EPS growth estimate of 7%. Because of the weak outlook, management has decided to keep the same dividend for seven consecutive quarters. However, the company can still increase dividends by about 10% per year through 2025 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 happen again, followed by strong growth. For example, FedEx's adjusted earnings-per-share increased by about 19% per year from fiscal 2010-2018.

1. Shares in millions; Last Dividend Increase based on TTM.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.6	17.9	13.0	15.0	18.5	18.4	14.4	14.6	15.2	13.5	***13.5***	***15.0***
Avg. Yld.	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.9%	0.9%	1.2%	***1.8%***	***1.8%***

Because of its sensitivity to economic growth (and decline), historically, FedEx has traded for a wide range of P/E's. FedEx trades at a P/E of 13.5, which is below the 2010-2019 average P/E of 16.1. In the past 20 years, time and time again, FedEx had traded at fair P/E's of 16.6-17.7. Because of the weak outlook, we expect lower earnings will compress the P/E. So, we're setting a fair P/E of 15 for 2025. Therefore, the stock appears to be undervalued for long-term investment. Expansion of the stock valuation could add 2.1% annually to returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

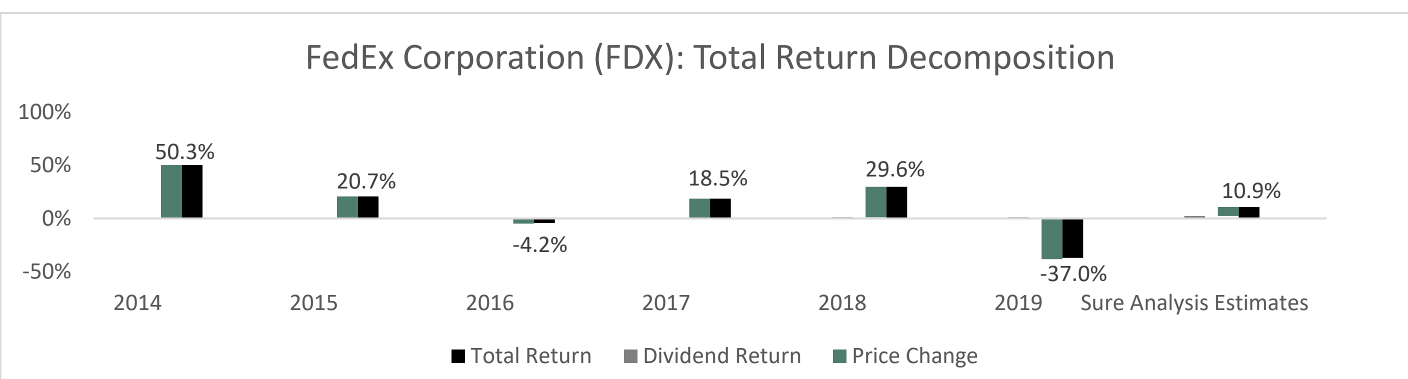
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12%	10%	8%	9%	9%	9%	9%	13%	13%	17%	***24%***	***27%***

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 tends 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 its 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 1.8% 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 2.1% per year from P/E multiple expansion. Due to an expected return of 10.9% per year, FedEx currently earns a buy recommendation from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	34734	39304	42680	44287	45567	47453	50365	60319	65450	69693
Gross Profit	22826	7789	8710	9398	9757	10748	11826	13318	14102	14827
Gross Margin	65.7%	19.8%	20.4%	21.2%	21.4%	22.6%	23.5%	22.1%	21.5%	21.3%
SG&A Exp.	14027			1368	15	2190	1498			
D&A Exp.	1958	1973	2113	2386	2587	2611	2631	2995	3095	3353
Operating Profit	6841	2467	3320	5094	3815	2143	3077	4566	4652	4786
Operating Margin	19.7%	6.3%	7.8%	11.5%	8.4%	4.5%	6.1%	7.6%	7.1%	6.9%
Net Profit	1184	1452	2032	2716	2324	1050	1820	2997	4572	540
Net Margin	3.4%	3.7%	4.8%	6.1%	5.1%	2.2%	3.6%	5.0%	7.0%	0.8%
Free Cash Flow	322	607	828	1313	731	1019	890	-186	-989	123
Income Tax	710	813	1109	1622	1334	577	920	1582	-219	115

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	24902	27385	29903	33567	33070	36531	45959	48552	52330	54403
Cash & Equivalents	1952	2328	2843	4917	2908	3763	3534	3969	3265	2319
Accounts Receivable		4763	4704	5044	5460	5719	7252	7599	8481	9116
Inventories	389	437	440	457	463	498	496	514	525	553
Goodwill & Int. Ass.	2200	2326	2387	2755	2790	4017	7755	7683	7453	7300
Total Liabilities	11091	12165	15176	16169	17793	21538	32175	32479	32914	36646
Accounts Payable	1522	1702	1613	1879	1971	2066	2944	2752	2977	3030
Long-Term Debt	1930	1667	1667	2990	4737	7268	13762	14931	16585	17581
Shareholder's Equity	13811	15220	14727	17398	15277	14993	13784	16073	19416	17757
D/E Ratio	0.14	0.11	0.11	0.17	0.31	0.48	1.00	0.93	0.85	0.99

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.8%	5.6%	7.1%	8.6%	7.0%	3.0%	4.4%	6.3%	9.1%	1.0%
Return on Equity	8.6%	10.0%	13.6%	16.9%	14.2%	6.9%	12.6%	20.1%	25.8%	2.9%
ROIC	7.4%	8.9%	12.2%	14.8%	11.5%	5.0%	7.3%	10.2%	13.6%	1.5%
Shares Out.	314.0	317.0	317.0	318.0	287.0	282.4	265.5	268.3	272.0	260.9
Revenue/Share	110.6	123.99	134.64	139.71	146.99	165.34	180.52	223.40	240.63	262.99
FCF/Share	1.03	1.91	2.61	4.14	2.36	3.55	3.19	-0.69	-3.64	0.46

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